CHAPTER I

1.1 Introduction

Indonesia is a market with a large volume of digital banking transactions due to its population's lack of bank accounts and high cellphone penetration rates. Indonesia has 143.26 million internet users, or 54.8% of the total population, with
177.9 million smartphone users. Internet users in Indonesia between the ages of 19 and 34. In 2017, the millennial generation accounted for 33.75% of the overall population (The Financial Service Authority, 2018). As a result, traditional banks with old models face the pressing task of transforming their services digitally in response to the increasing public demand for the availability, access, and control of digital banking services.

The majority of researchers believe that the growth of information technologyin the sequence of digital revolutions will have an impact on the business model of the Indonesian banking sector in the future (McKinsey, 2020). Consumer behavior asa result of the digital revolution necessitated that banks be able to give faster and simpler access, which in turn needed that banks continue to innovate in providing digital goods. The digital revolution has the potential to reduce the reliance of transactions on physical branch offices, rendering them obsolete in the future (Andrews, 2020).

Emerging and operating financial technology (Fintech) companies can disrupt incumbent companies in the banking sector. This can be seen in their low prices and ability to expand quickly if banks do not adapt or act. With virtual banking or thelack of physical bank institutions, the activities, objectives, and labor performed by bank institutions can be replaced by fintech. Nurhaida in (cnbcindonesia.com, 2020) explained the findings of a Bank for International Settlements (BIS) study, which identified five possible fates for banking in the face of technological and digital advances. First, better banks will emerge as a result of the transformation, allowing them to provide digital services. Second, traditional banks do not engage in transformation, whereas developing new digital banks do. Third, banks will perform extensive procedures, but the things that are mainly done by digital companies willbe referred to as "bank degeneration." Banks are only involved in general business operations. While digital companies handle interactions with customers, they handle relationships with future coaching. Fourth, banks will be degraded; banks will onlybe able to provide certain services, while fintech will provide specialized services.

According to Shahchera (2012), internal aspects that primarily influence bank

performance and external aspects connected to macroeconomics such as inflation rate, GDP growth rate, and foreign currency exchange rate are two types of aspects that can universally influence bank financial performance. This research is directed toward the internal aspects that mainly affect the financial performance of banks namely profitability, liquidity, and capitalization.

According to Sari & Saraswati (2017), the first internal aspect is the variable measurement of return on assets to measure bank profitability because Bank Indonesia as a banking supervisor and supervisor prioritizes the profitability value of a bank as measured by assets where most of the funds come from the public and laterby the bank must also be channeled back to the public. Furthermore, the liquidity aspect, the loan-to-deposit ratio measurement variable because the Bank Indonesia Regulation states that the bank's liquidity capability can be proxied by the LDR (Loan to Deposit Ratio), which is the ratio between loans and Third Party Funds (DPK). Loan to Deposit Ratio shows the ratio between the volume of loans comparedto the volume of deposits owned by the bank. This means it shows the level of liquidity is getting smaller and vice versa because the sources of funds (deposits) owned, have been used up to finance the financing of the credit portfolio. The higher this ratio, the lower the liquidity capability of the bank concerned, so the possibility of a bank in a problematic condition will be greater.

Another aspect of capital is the capital adequacy ratio measurement variable because the ratio is related to the bank's capital factor to measure the adequacy of the capital owned by the bank to support assets that contain risk. For now, the minimum CAR is 8% of Risk Weighted Assets (ATMR) or added with Market Risk and Operational Risk, this depends on the condition of the bank concerned. The amount of capital of a bank will affect whether or not a bank is able to efficiently carry out itsactivities. If the capital owned by the bank is able to absorb unavoidable losses, then the bank can manage all its activities efficiently, so that bank wealth (shareholder wealth) is expected to increase and vice versa.

The author would like to conduct research entitled "Financial Performance Analysis of the Banking Sector Before and After the Existence of Financial Technology Companies" with the aim of understanding whether there are differencesin profitability, liquidity, and capitalization in the banking sector before and after the existence of financial technology companies. This is done based on current conditions where financial technology companies have begun to increase their presence in the financial market.