

Financial Technology Phenomenon in Defense Economic Perspective

Supandi Halim, Muhammad Haikal Kautsar*

Indonesia Defense University
Bogor, Indonesia

*kautsarhaikal@yahoo.com

Abstract—Financial Technology become a enormous phenomenon in Indonesia Financial Industry. This Paper has purpose to study Financial Technology phenomenon in Defense Economic Perspective. This Study using qualitative approach to study the phenomenon. Data collected by study literature and short interview with interviewees. This result find that financial technology development in Indonesia bring both opportunity and threat to Indonesia Security in Defense Economic Perspective.

Keywords—financial technology, defense economic, digital finance, fintech

I. INTRODUCTION

Indonesia is one of many emerging market country in financial sector. The number of people, geographic location, and natural resources makes Indonesia interesting as investment destination for investor. One of many sectors that interesting for investor is Financial Technology area. In 2018 the number investment in fintech reach US\$ 182.3 Million, raise up form US\$ 176,75 Million in 2018 [1]. Therefore the development of fintech industry in Indonesia is increase rapidly.

Besides the investment in fintech industry that encourage the development of fintech Industry there are several factor that also contribute to development of fintech industry, Table 1 show the factor that also influence in development of fintech industry.

TABLE I. THE FACTOR OF DEVELOPEMENT FINTECH INDUSTRY

Factor	Number	Information
Active Social Media	130 Million People	70% Mobile, 30% Mobile
Internet Penetration	143.2 Million	
Population	261.12 Million	
Banked Populaiton	48,9%	
Mobile Subscription	415.7 Million	

Sources:[2]

As shows by Table 1, the factor that also support the developement of fintech industry. Hence, the digitalization in financial industry is inevitable. This phenomenon is interesting to be studied in perspective of Defense Economic. Because the appearance of financial technology could bring impact in positive way but also in negative way. Defense Economic will observe the positive impact and negative impact of fintech to

national security and interest. Researchers expect this study will give benefit to regulator and scholar to in order of decission making and academic aspect.

II. LITERATURE REVIEW

This study use three theories to support and basic of study. First, theory of disruptive innovation, theory of fintech, and theory of Defense Economic.

A. Disruptive Innovation Theory

This theory propose that innovation could lead transformation in existing a system or market, with introduce practicality, ease of access, convenience, and efficiency in cost [3]. Disruptive innovations are inferior to incumbent products on accepted performance dimensions, but they offer a novel mix of attributes that appeals to fringe customer groups, notably those near the bottom of the market. Investmen in this innovation is unattractive for incumbents, but may be attractive to entrants who lack many (or any) customers and enjoy fewer competing investment opportunities. Consequently, incumbents are typically unmotivated to develop disruptive innovations that promise lower margins, target smaller markets, and introduce inferior products and services that their existing customers cannot use [4].

B. Financial Technology

“FINTECH” is an acronym which stand for financial technology, combining bank expertise with modern management science technique and the computer [5]. In simply way definition of fintech is combination between financial serves and technology implementation. Another scholar define fintech in broder way. Fintech is driven by technological advances, new service models have developed in the financial industry which offer additional opportunities to customers. Under the common denominator “fintech” these new business aim to challenge existing financial institutions by using technology to deliver value to the customer in an alternative way [6].

According to Indonesia Financial Authority, in 2019 there is 18 type of fintech already operation in Indonesia. Table 2 show the type of fintech and short explanation of it is.

TABLE II. THE TYPE OF FINTECH AND SHORT EXPLANATION OF IT IS

Type	Short Explanation
P2P Lending	Fintech platform that facilitate person with financial capability to meet person with requiring financial support.
Crowdfunding	Facilitate peoples to contribute in specific funding goals
Payment	Facilitate payment with cashless system
Financial Agent	Financial agent that use technology in services
Credit Scoring	Help investor to calcute the risk of funding in investment
Aggregator	Help consumer decide benefit and cost from every financial services available
Project Financing	Facilitate to contribute in fundng specific project
Social Network & Robo Advisor	Help consumer to make financial decission with advice from robo
Financial Planner	Financial consultant that use technology in services
Blockchain Based	Used blockhain in financial services
Online Distress Solution	Help consumer to find solution in financial problem
Claim Service Handling	Help consumer to claim insurance
E-KYC	Help investor to recongize the candidate of investmen receiver
Verification Non-CDD	Use to verify the customer
Tax and Accounting	Help customer in tax issue and bookkeeping
Online Gold Depository	Online gold investment
Digital Dire	Digital Investmen Real Estate
Funding Agent	Funding Agent that use technology in services

Sources:[7]

The number kind of fintech is possibly to increase and develop, along with the development of technology.

C. Defense Economic

The Defense Economic is popularized by McGuire [8] in an essay "Defense Economics and International Security". In his essay, he defines Defense Economic as using Economic Approach in allocating resources, analysis of deterrence, model of alliance, national power, economic survival, and international trade, arm races and strategic interactions, economic ecology and international conflict in defense area of nations [8].

Furthermore develop the concept of defense economics especially in Indonesia case. According to his concept the Defense Economic also involve in matter of development of Military and Stratetegic Industry of a nation. Defense Ecomic has a role to make better managemetn in defense industry, creating independent defense industry to fulfil nation need of defence equipment and tools and reliable military product in international market [9].

III. METHODS

This study use qualitative approach to study the phenomenon of fintech. This research use primary and secondary data to be analyze, primary data in qualitative study is individual that involve and experienced the phenomenon [10]. Hence, they contain the object of research. We interview one of Indonesia Financial Authority about this topic. The secondary data of this study is compiled from literature and video.

Data analysis is effort of qualitative researcher to summarize the data that obtain accurately and reliable [11].

IV. RESULTS AND DISCUSSION

In this chapter we will examine the result of our study and discuss the finding. We done a short interview with deputy commisioner of Indonesia Financial Authority. From the interview we found that there is a challenge that will be faced financial industry in the future. The type of fintech will be more variant, Meanwhile the literacy of society to fintech is required to be improved. If the development of fintech is not conformable with the literacy of people, there will be a escalation in financial crime in fintech industry.

The uplift of financial crime can lead to be a threat for national stability. In the Defense Economic perspective this is kind of nirmilitary threat for nation. Therefore it is required to have several mitigation and settlement step to encounter the threat. According to short interview with interviewees, there are three strategies to encounter the financial crime not to become a threat.

First, optimize task force. This task force has role to minimize the illegal fintech operation that can lead to financial crime. Second, increase the literacy program in society. The preventive way to make sure peoples avoid illegal fintech and get in trap of financial crime is incerase the literacy program. This program involve the regulator, industry, and academics to take a part in enchace financial literacy of society. Third, strengthen the regulation. The gap between regulation and development of technology creating space of unregulated operation. This is used by offender to commit financial crime in Fintech Industry. Therefore it is necessary to strengthe the regulation.

This three strategies that we obtain from interviewees. We analyzed in defense economic theory. In Defense Economic theory there must be a synergy between law and economic, economic and law, and politic and economic [12]. The strategies to optimize task force of waspada investasi dan strengthen the regulation is a consistent with Defence Economic approach to create synergi between law and economic. The root of problem of financial crime is absence of law to protect consumer, hence offender use the gap to take advantage in the middle of absence of law.

The strategy to increase the literacy program in society is appropriate strategy in matter of Defense Economy. This strategy use political power to synergy with economy. Regulator (OJK) use his political power to encourage industry and academics to take a part and solemn in doing financial literacy program (economy). The regulator already use the political power wisely and precisely in matter of protecting national interest.

In addition to negative side or challenge that sourced from development of fintech. There are also positive impact form fintech to Indonesia. According to short interview with interviewees, fintech contribute in postive way such as, 1) Increase Financial Inclusion. Fintech help peoples with unbanked access or banked to access financial servies more simple by using smartphone. Which is the number of people that Subscribe Mobile services is twice than number of Indonesia population, 2) Distribute Funding wider and easier. The presence of fintech faciliate SME and people in rural area to get funding. People and SME are unbankable can get fund by fintech company to be used in consumtive or productive activity.

In perspective of Defenes Economic, when people and SME can get funding easier it can support growth of economy by creating more consumption and increasing investment. Furthermore it could lead to increase government spending especially in defense budget. Thus, when fintech is growing, expected that the allocation of defence budget (government spending) also could be increase.

V. CONCLUSIONS

Fintech Phenomenon in Defense Economics Theory bring both threat and opportunity to Indonesia Defense and Security. Therefore, it is required strategy to minimize the threat and optimeze the opportunity by government, industry, and academics.

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