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COMMUNITY BANK AS THE PHILOSOPHICAL RATIO LEGIS BEHIND THE PROHIBITION OF ISLAMIC RURAL BANKS FROM OFFERING DIRECT DEBIT IN CONSTITUTIONAL COURT RULINGS:
Impacts and Solutions in the Digital Financial Era

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Abstract

The unequal legal treatment between Commercial Banks (CB) and Rural Banks (BPR) in providing direct debit services has prompted some parties to file a judicial review of the Banking Law with the Constitutional Court (MK). Through Decision Number 32/PUU-XX/2023, the MK rejected the petition, reasoning that BPR/BPRS are community banks. This study aims to uncover the ratio legis of the community bank concept, the impact of prohibiting direct debit services on Islamic Community Banks amidst the development of Islamic fintech and the National Non-Cash Movement (GNNT), and the collaboration between Islamic Community Banks and

Islamic fintech as a sustainability strategy. This is doctrinal legal research using case and statutory approaches, relying on primary and secondary legal materials obtained through library research and analyzed prescriptively. The study reveals that the prohibition of direct debit services for Islamic community banks is based on concerns about undermining their philosophical function to serve economically disadvantaged groups. The limitations and restrictions on payment transaction services have hindered the optimal performance of Islamic community banks in serving the public, particularly micro and small enterprises, thereby affecting sustainable national economic growth. Nevertheless, Islamic community banks can sustain their operations in the digital finance era by collaborating with Islamic fintech lending platforms to enhance their service offerings.

Perbedaan perlakuan hukum antara Bank Umum (BU) dan Bank Perkreditan Rakyat (BPR) dalam penyediaan layanan direct debit mendorong sejumlah pihak untuk mengajukan uji materi terhadap Undang-Undang Perbankan ke Mahkamah Konstitusi (MK). Melalui Putusan Nomor 32/PUU-XX/2023, MK menolak permohonan tersebut dengan alasan bahwa BPR/BPRS adalah bank komunitas. Penelitian ini bertujuan untuk mengungkap ratio legis dari konsep bank komunitas, dampak pelarangan layanan direct debit pada Bank Perkreditan Rakyat Syariah (BPRS) di tengah perkembangan fintech syariah dan Gerakan Nasional Non-Tunai (GNNT), serta kolaborasi antara BPRS dengan fintech syariah sebagai strategi keberlanjutan. Penelitian ini merupakan penelitian hukum doktrinal dengan pendekatan kasus dan perundang-undangan, menggunakan bahan hukum primer dan sekunder yang diperoleh melalui studi pustaka dan dianalisis secara preskriptif. Hasil penelitian menunjukkan bahwa pelarangan layanan direct debit bagi BPRS didasarkan pada kekhawatiran akan melemahkan fungsi filosofis mereka untuk melayani kelompok ekonomi lemah. Pembatasan dan larangan pada layanan transaksi pembayaran telah menghambat kinerja optimal BPRS dalam melayani masyarakat, khususnya usaha mikro dan *kecil, sehingga memengaruhi pertumbuhan ekonomi nasional yang berkelanjutan. Meski demikian, BPRS dapat mempertahankan operasinya di era keuangan digital dengan berkolaborasi bersama platform pinjaman fintech syariah untuk meningkatkan kualitas layanan mereka.*

Keywords: *community bank, direct debit, constitutional court.*

Introduction

Islamic banks are intermediary institutions that connect depositors with investors. In the digital economy era, banks not only collect funds from the public in the form of savings and channel them into financing but also offer other products, such as non-cash payment systems. However, legally, not all banks can integrate with the National Payment Gateway, particularly Islamic Rural Banks (BPRS). This is confirmed by Article 1, point 9 of Law Number 21 of 2008 on Islamic Banking, which defines BPRS as Islamic banks that, in their operations, do not provide payment traffic services. Additionally, Article 25 reiterates that BPRS are prohibited from engaging in business activities that violate Sharia Principles, accepting deposits in the form of giro accounts or participating in payment traffic, conducting business activities in foreign currencies except for foreign exchange services authorized by Bank Indonesia, engaging in insurance activities except as agents for Islamic insurance products, making capital investments except in institutions established to address liquidity issues of Islamic Rural Banks, and conducting other business activities outside those specified in Article 21.

Article 21 outlines the permissible activities for BPRS, which include collecting funds from the public in the form of savings deposits based on wadi'ah agreements or other contracts that comply with Sharia Principles, and investment deposits based on mudharabah agreements or similar contracts. They may also disburse funds in the form of profit-sharing financing based on mudharabah or musharakah agreements, financing based on murabahah, salam, or istisna' agreements, financing based on qardh agreements, leasing movable or immovable property to customers under ijarah or lease-purchase agreements in the form of ijarah muntahiyabittamlik, and debt takeovers based on hawalah agreements. Furthermore, BPRS can place funds in other Islamic banks as deposits based on wadi'ah agreements or investments based on mudharabah agreements or other Sharia-compliant contracts. They may also transfer money for their benefit or that of their customers through accounts at Islamic Rural Banks maintained in Islamic Commercial Banks, Conventional Commercial Banks, or Sharia Business Units. Finally, they may offer other Islamic banking products or conduct business activities that align with Sharia Principles, with approval from Bank Indonesia.

The implication is that Article 21, letter d of the Islamic Banking Law regulates that Islamic Rural Banks (BPRS) cannot independently transfer money, whether for their own benefit or for that of customers, but must do so through an Islamic Rural Bank account at an Islamic Commercial Bank, Conventional Commercial Bank, or Sharia Business Unit. The restriction and prohibition on providing payment traffic services make Islamic Rural Banks less optimal in offering banking services to the public, particularly micro and small enterprises, which in turn hinders the sustainable growth of the national economy. Bank Indonesia has established the National Payment Gateway (GPN) policy aimed at creating a smooth, secure, efficient, and reliable national payment system, while also taking into account the rapidly advancing, competitive, and integrated developments in information, communication, technology, and innovation.

This restriction means that BPRS customers do not have full autonomy in exercising their financial rights due to these limitations. This is in contrast to customers of Commercial Islamic Banks (BUS), who are free to use their financial rights without the restrictions faced by BPRS. At a glance, this creates a form of discrimination in the treatment of these two types of Islamic banks, even though the principle of equality before the law should apply. Furthermore, in terms of consumer services, discrimination also exists, whereas, according to the Financial Services Authority Regulation Number 1 of 2013 on Consumer Protection in the Financial Services Sector, one of the consumer rights is the right to fair treatment (the principle of fairness). The Consumer Protection Law Number 8 of 1999 also grants the right to nondiscriminatory services.[1]

The aforementioned issue raises several questions: what is the legal rationale (ratio legis) behind the restrictions imposed on Islamic Rural Banks (BPRS)? What are the implications of such prohibitions, particularly amidst

[1]J. Widijantoro et al., *Hukum Perlindungan Konsumen Di Era Otoritas Jasa Keuangan*, Edisi Revi. (Yogyakarta: Cahaya Atma Pustaka, 2019).

the rise of Financial Technology (FinTech), on customers' sovereignty in exercising their financial rights? And how constitutional are these prohibitions and restrictions? These questions are significant and require a thorough study, as Indonesia, being a legal state, aims to realize justice, legal certainty, and legal utility-objectives of law as introduced by Gustav Radbruch.[2]

Research Methods

The research employs a normative legal research method, also referred to as doctrinal legal research in SoetandyoWignjosoebroto's terminology[3] Normative legal research analyzes and addresses legal issues using a legal framework built upon legislation[4], legal concepts, and principles within legal science.[5]

The approaches utilized in this research include the statute approach, the historical approach, and the case approach. The primary legal materials examined are the minutes of deliberations on Law No. 21 of 2008, Law No. 4 of 2023 on the Development and Strengthening of the Financial System, and Constitutional Court Decision No. 32/PUU-XX/2022. In addition, secondary legal materials such as scholarly books, academic journals, proceedings, papers, internet sources, and legal dictionaries specifically discussing community banks are utilized as analytical materials.

All these legal sources are analyzed using a prescriptive analysis technique. This technique combines descriptive and predictive analytical methods. Descriptive analysis outlines the current state of consumer protection, while predictive analysis offers forecasts based on the present situation to envision future consumer protection scenarios. Consequently, prescriptive analysis aims to answer what should be done to ensure the survival of community banks by

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[2]Gustav Radbruch, "Five Minutes of Legal Philosophy (1945)," *Oxford Journal of Legal Studies* 26, no. 1 (2006): 13–15, https://idv.sinica.edu.tw/philaw/Jurisprudence_Reading/Five Minutes of Legal Philosophy (1945).pdf.Stefan Wrbka, "Comments on Legal Certainty from the Perspective of European, Austrian and Japanese Private Law," in *Legal Certainty in a Contemporary Context: Private and Criminal Law Perspectives*, ed. S. Wrbka M. Fenwick (Singapore: Springer Science Business Media Singapore, 2016).

[3]Soetandyo Wignjosoebroto, *Hukum: Paradigma, Metode, Dan Masalahnya*, ed. Ifdhal Kasim (Editor Utama) et al. (Jakarta: Elsam dan Huma, 2002), 147-160.

[4]Peter Mahmud Marzuki, *Penelitian Hukum* (Jakarta: Prenada Media Group, 2010).

[5]Amiruddin dan Zainal Asikin, *Pengantar Penelitian Hukum* (Jakarta: Rajawali Press, 2018).

assessing their current conditions and providing guidance, solutions, or recommendations for their future sustainability.

Discussion

The Ratio Legis of the Prohibition on Islamic Community Banks from Providing Payment Traffic Services (Direct Debit)

Ratio legis refers to a legal rationale derived from common sense, intellect, or reasoning that serves as the purpose or foundation for the enactment of a legal rule. Based on this definition, in the context of legislation, ratio legis is closely aligned with the essence of law, representing the core or fundamental principle of a legal provision.

In practical discourse, the concept of ratio legis can be characterized in various ways, including:(a) the actual intent of a lawyer or judge;(b) the legislative considerations for enacting a specific law or a judge's reasoning for delivering a particular judgment;(c) the subjective purpose of a law (or ruling);(d) reconstructing the intent of the legislator or judge (the rationale they must possess);(e) a type of legal argument that articulates the intent or reasoning behind a legislator's or judge's act.ions;(f) the objective purpose of a law (or ruling);(g) the specific purpose of a law or ruling (relevant under certain circumstances);(h) the overall purpose of a law or ruling; and(i) the justification (external reason or rationale) for specific legislative or judicial actions.[6]

In Germany, lawyers frequently employ the idea of ratio legis in legal interpretation. More precisely, it is closely related to the "teleological" method of interpretation, which seeks the ratio legis of a specific provision to uncover its meaning. This branch of "teleological" interpretationone of the four main methodological approaches to statutory interpretation used in German-speaking contextsasks about the telos or purpose of a legal rule and, in doing so, refers to ratio legis as a guide to identify this purpose.[7]

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[6] Adam Dyrda, "The Real Ratio Legis and Where to Find It A Few Pragmatic Considerations," in *Ratio Legis: Philosophical and Theoretical Perspectives*, ed. Verena Klappstein and Maciej Dybowski (Switzerland: Springer Nature Switzerland, 2018), 9.

[7]Konstanze von Schütz, "Immanent Ratio Legis? Legal Forms and Statutory Interpretation," in *Ratio Legis: Philosophical and Theoretical Perspectives*, ed. Verena Klappstein and Maciej Dybowski (Switzerland: Springer Nature Switzerland, 2018), 161.

The functional dichotomy between BUS and BPRS can be traced back to the philosophical foundation for the establishment of BPRS itself. In the draft of the Islamic Banking Bill proposed by the House of Representatives, BPRS is defined as follows:[8]"BPRS is a bank that conducts specific business activities based on sharia principles, which does not provide payment traffic services and operates within a limited area."In response to this definition, the government, through the Minister of Finance at that time, proposed the following revisions: 1) Replace the phrase "a bank conducting specific business activities based on sharia principles" with "Islamic Bank";2)Remove the phrase "and operates within a limited area."

As a result, the government's proposed definition of BPRS in the draft of the Islamic Banking Bill became:"BPRS is an Islamic Bank that does not provide payment traffic services."Payment traffic services refer to the process of fund transfers occurring within a country or between countries. However, the academic manuscript of the Islamic Banking Bill does not explicitly or implicitly explain the ratio legis behind prohibiting BPRS from offering payment traffic services. Since BPRS is essentially a conventional rural bank operating under sharia principles, it is crucial to explore the historical origins of conventional rural banks to uncover their ratio legis.

The establishment of conventional rural banks (BPR) was motivated by the desire to assist farmers, workers, and laborers in breaking free from the grasp of money lenders who charged exorbitant interest rates. Rural credit institutions began to emerge as a response to this issue. The historical evolution of BPR includes the following milestones:[9]

Table 1: The Historical Evolution of BPR

No	Period	Description
1	19th Century	Established *Lumbung Desa* (Village Granaries), Village Banks, Farmers' Banks, and Trade Banks
2	Post-	Established *Bank Pasar* (Market Banks) and *Bank*

[8]Daftar Inventarisasi Masalah Nomor 8 RUU Perbankan Syariah Januari 2008, 3.
[9] https://www.perbarindo.or.id/sejarah-singkat-bank-perkreditan-rakyat-bpr/ diakses pada tanggal 29 Desember 2022.

	Independence Era	*KaryaProduksiDesa* (Village Productive Work Banks)
3	Early 1970s	Local governments established *Lembaga Dana KreditPedesaan* (LDKP, Rural Credit Fund Institutions)
4	1980s	The government issued the October 1988 Policy Package (PAKTO) through Presidential Decree No. 38, spurring the creation of new BPRs. The policy clarified the existence and activities of BPRs
5	1992	Law No. 7 of 1992 concerning Banking provided a clear legal foundation for BPRs as a type of bank distinct from Commercial Banks. Government Regulation (PP) No. 71 of 1992 allowed non-bank financial institutions licensed by the Minister of Finance, such as Village Banks, Village Granaries, Market Banks, Employee Banks, and other local credit institutions (LPN, LPD, BKD, BKK, KURK, LPK, BKPD), to obtain BPR status by meeting specific requirements and procedures by October 31, 1997

Souce: data proceed by authors

In the 1992 Banking Bill, Rural Banks (BPR) were defined as banks permitted to accept deposits only in the form of time deposits, savings, and/or similar forms.[10]The prohibition against providing payment traffic services was explicitly stated in Article 10 of the Bill, which declared:"BPR is prohibited from accepting deposits in the form of demand deposits (giro) and participating in payment traffic services."This means BPR functions to collect funds from the public solely in the form of time deposits, savings, or similar instruments but is barred from offering payment traffic services.[11]However, in practice, according to the Golkar Party Development Fraction (FraksiKarya Pembangunan): "BPRs were invaluable in their role of serving the

[10]Pasal 1 Angka 9 RUU Perbankan tahun 1992.
[11]Sekretariat jenderal Dewan perwakilan Rakyat Bidang Arsip dan Museum, Risalah RAPAT PARIPURNA TERBUKA KE- 42 MASA SI DANG IV TahunsiDANG 1990-1991, 22-23.

economically disadvantaged. These groups, which include informal and traditional entrepreneurs, cover all small-scale businesses in both rural and urban areas, operating in trade, industry, crafts, and other sectors. While these businesses may lack formal legal status, this does not make them insignificant or unregulated".[12]

The growing presence of BPRs in urban areas was increasingly evident, especially as there was no guarantee that commercial banks would cater to the economically disadvantaged in the informal sector, even though commercial banks are intended to serve all social strata.This perspective aligns with the views of the Indonesian Democratic Party Fraction (FraksiPartaiDemokrasi Indonesia, FPDI), which also questioned the prohibition on BPRs providing payment traffic services. FPDI asserted:[13]The mission of Rural Banks (BPR) is to provide financial assistance to small and medium enterprises (SMEs) scattered across the country, many of whom remain underserved by commercial banks. This is largely due to commercial banks' lack of interest in small loans, such as Rp. 50,000 (Fifty Thousand Rupiah). It is a fact that SMEs are also present in urban areas and are in dire need of limited credit facilities.This raises an important question: why is the location of BPRs restricted? Why are BPRs confined geographically? Let BPRs operate freely across the Republic, as the economically disadvantaged exist everywhere. BPRs are expected to be at the forefront of fostering small economic groups wherever they may be across Indonesia.However, this aspiration cannot be realized due to operational restrictions. These include geographic limitations on their areas of operation and restrictions on their business activities to only collecting funds from the public in the form of time deposits, savings, or other similar forms. Moreover, they are prohibited from providing payment traffic services or direct debit services (giralisasi).A clear explanation of these limitations is necessary to address the concerns about why BPRs are not allowed to expand

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[12]Fraksi karya Pembangunan dalam Pembicaraan Tingkat II/Pemandangan Umum para Anggota Dewan atas Paket 4 RUU Bidang Keuangan, yaitu, Sekretariat jenderal Dewan perwakilan Rakyat Bidang Arsip dan Museum, Risalah Rapat Paripurna Terbuka KE- 42 Masa Sidang IV Tahun Sidang 1990-1991, 11.

[13]Fraksi PDI Sekretariat jenderal Dewan perwakilan Rakyat Bidang Arsip dan Museum, Risalah RAPAT PARIPURNA TERBUKA KE- 42 MASA SI DANG IV TahunsiDANG 1990-1991, PembicaraanTinc;kat II/JawabanPemerintahatasPaket 4 RUU.
BidangKeuangan, Senin, 9 September 1991, 7.

their scope and better serve the economically disadvantaged population in both rural and urban areas.

In response to the suggestions, questions, and objections raised by the PDI Fraction, the ABRI Fraction, the United Development Party, and the Indonesian Democratic Party regarding the policy of limiting BPR locations based on districts rather than market segments, as well as the prohibition on BPRs providing payment traffic services or direct debit (giralisasi), the government, represented by Finance Minister Prof. Dr. J.B. Sumarlin, provided the following response:[14]As is well-known, to support the growth and modernization of the rural economy, banking services are required to be deeply rooted in the respective areas. Therefore, the Banking Bill includes a provision for a type of bank that can contribute to rural development, namely the Rural Bank (BPR), which has significantly lower capital requirements compared to commercial banks.However, limiting BPR operations based on market segments, customer demand size, or geographical areas could result in reduced flexibility in the bank's development. This could prevent the bank from maintaining continuity in serving its customers. It is also worth noting that a BPR, if it grows large enough to meet the requirements for becoming a commercial bank, may transition into a commercial bank. Once this occurs, the bank would be subject to the regulations applicable to commercial banks.

From the discussions of the Banking Bill and the government’s response mentioned above, it can be inferred that the prohibition on BPR/BPRS providing payment traffic services is because they are banks deeply rooted in rural areas. Their main objective is to strengthen the local economy, which is indeed the reality. As such, the capital requirements for their establishment are smaller compared to conventional or Islamic commercial banks[15]. These rural

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[14]Sekretariat jenderal Dewan perwakilan Rakyat Bidang Arsip dan Museum, Risalah RAPAT PARIPURNA TERBUKA KE- 42 MASA SI DANG IV TahunsiDANG 1990-1991, PernbicaraanTinc;kat II/JawabanPemerintahatasPaket 4 RUU.
BidangKeuangan, Senin, 9 September 1991, 12.

[15] Mengacu pada ketentuamPasal 6 ayat (4) PeraturanOtoritas Jasa KeuanganNomor: 62/POJK.03/2020 tentang Bank Perkreditan Rakyat (POJK BPR), nilai minimum modal yang disetoruntukpendirian BPR dibedakandengan zona yang didasarkan pada potensiekonomi dan tingkatpersainganlembagajasakeuangan. Besar modal disetoruntuk zona yang paling rendahyaitu zona 3 adalahsebesar Rp25 miliar.Modal yang harusdisetoruntukmendirikan BPR sangat kecildibanding Modal yang harusdisetoruntukmendirikan Bank UmumsebagaimanadiaturdalamPasal 12 ayat (1)

banks are conceptually recognized as community banks. Therefore, BPRS is designed to be a community bank targeting small communities around the bank and Micro, Small, and Medium Enterprises (MSMEs), including areas that are not yet served by commercial banks. This distinction aims to ensure that BPR and BPRS remain focused on their role as community banks, providing financial services to people in remote areas.

In Nigeria, the Central Bank defines a Community Bank as a self-sustaining financial institution owned and operated by a community or a group of people to provide financial services to its members.[16]As the name suggests, community banks focus their activities on local communities, collecting deposits and offering loans within a limited trade area rather than operating in regional or national markets. Due to their narrow focus, these banks are generally smaller. In fact, many market players classify banks with assets under $1 billion as community banks. Bankers not only view community banks as fundamentally different from large banking organizations but also highlight the important distinctions between various types of community banks. For example, the banking industry sponsors many trade associations, some of which are specifically for community banks.

The purpose of community banks is to promote the development of low-income regions through encouragement and the creation of local production and consumption networks, based on the support of economic initiatives by the Solidarity Economy. Their scope is diverse, including social-productive businesses, service providers, support for commercialization (markets, solidarity fairs), and consumer organizations.[17] These small, community-based banking institutions often tailor their products and services to meet the specific needs of their communities, such as agricultural loans in

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PeraturanOtoritas Jasa KeuanganNomor: 12/POJK.03/2021 tentang Bank Umumyaitu paling sedikitsebesar Rp10 triliun.

[16]O. Felix Ayadi, Ladelle M. Hyman, and Johnnie Williams, "The Role of Community Banks in Economic Development: A Nigerian Case Study," *Savings and Development* 32, no. 2 (2008), 164.

[17]C. U. Okoye and Amon O. Okpala, "The History of Community Banking and Its Role in Nigerian Rural Economic Development," *Review of Black Political Economy* 28, no. 3 (2001): 73–87.

rural towns, high savings rates for employees, and commercial real estate loans in micropolitan communities.[18]

Community banks play an essential role in the local economy and society at large. They provide traditional banking services to local households and offer loans to nearby small businesses. Unlike larger banks that operate on a national scale, community banks focus on gathering deposits and issuing loans locally. They serve key segments of the commercial banking market, including agriculture, real estate, and small business loans. Community banks generate most of their revenue from traditional banking activities.[19]

These community banks are often involved in personal and non-standard loans because they possess specialized knowledge and expertise about their communities and customers, which leads to them being referred to as "relationship bankers." Due to their close ties with small businesses, they can drive a significant segment of economic growth. Compared to all other banks (and credit unions), small banks dedicate the largest portion of their assets to small business loans. Community banks use relationship banking, while larger banks rely more on model-based approaches.[20]

Community banks are one of the most important sources of capital for small businesses. They are generally smaller in size, involved in basic banking activities, and operate in geographically limited areas. While credit access has grown in recent yearsincluding conventional bank loans, lines of credit, venture capital, and new online lending sourcescommunity banks are more likely to be in rural areas and receive the highest satisfaction ratings from small businesses among lending sources. Community banks will remain critical in ensuring underserved communities have access to financial services as digital banking grows. As financial technology (fintech) and banks continue to accelerate their digital transformation in response, the closure of more top-tier banks makes personal banking inaccessible for many people.

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[18]John Waupsh, *Bankruption: How Community Banking Can Survive Fintech* (New Jersey: John Wiley & Sons, Inc., Hoboken, 2017), 7.

[19]Baily, Martin Neil, Matthew S. Johnson, and Robert E. Litan. 2008. "The Origins of the Financial Crisis," Brookings (November). Retrieved from http://www.brookings.edu/research/papers/2008/11/origins-crisis-baily-litanon January 2, 2023.

[20]Martin Neil Baily and Nicholas Montalbano, "The Community Banks: The Evolution of the Financial Sector, Part III," *Economic Studies*, no. December (2015), 1.

The concept of a community bank, as described above, is functionally and positionally equivalent to institutions like Lumbung Desa, Bank Desa, Bank Tani, Bank Dagang, Bank Pasar, Bank KaryaProduksiDesa, and Lembaga Dana KreditPedesaan that have existed in Indonesia. These institutions were the forerunners of BPR/BPRS in Indonesia, with their focus on serving local communities. Therefore, the philosophical foundation of establishing BPR/BPRS is rooted in the concept of community banks. This also explains the legislative rationale for prohibiting BPRS from providing payment traffic services, as is the case with commercial banks (BUS). Currently, the market share of community banks, in the form of BPRS, is not absolutely monopolized by them in MSME financing. Empirical reality shows that, in addition to BPRS, commercial banks (BUS) also serve banking needs in rural areas and provide financing for MSMEs. Bank Syariah Indonesia (BSI), for example, disbursed financing for the MSME segment totaling IDR 38.3 trillion nationally in 2021, maintaining the quality of its financing. This amount represents about 23% of BSI's total financing distribution.[21]

Impact of the Prohibition on Payment Transactions for Sharia Community Banks Amidst the Growth of Financial Technology (Fintech) and the National Non-Cash Movement (GNNT)

The traditional nature of community banks faces a real threat amid the rapid growth of Financial Technology (fintech). The prohibition on providing payment transaction services clearly has a negative impact on their sustainability as community banks. Small financing needs, which community banks usually serve, can be easily met by sharia fintech. Furthermore, community banks are intended to provide financing to SMEs, and according to Digination.id, 61% of SME business owners are under 35 years old (millennials).[22]The market share of sharia fintech is largely dominated by millennials, making it a rational argument that if community banks continue to hold on to their traditional methods of service, they will gradually lose millennial customers who are more familiar with technology.

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[21] https://www.bankbsi.co.id/news-update/berita/bsi-dukung-umkm-melalui-talenta-wirausaha-bsi, diakses pada tanggal 3 Januari 2023.

[22] https://www.digination.id/read/018194/xendit-index-entrepreneur-muda-meningkat-61-pelaku-umkm-di-bawah-35-tahun, daikses pada tanggal 18 Januari 2023.

Additionally, according to the Ministry of Cooperatives and Small and Medium Enterprises, around 3.79 million SMEs are already using online platforms to market their products.[23]This represents about 8% of the total number of SMEs in Indonesia, which is 59.2 million. This digitalization of SME products is supported by the Ministry of Cooperatives and the Ministry of Communication and Informatics, in collaboration with e-commerce players, under the program "8 Million SMEs Go Online." This shift is also likely to impact online-based financing, as it is more efficient in terms of time. Efficiency is fundamental in the business world.

The emergence of fintech has certainly become a competitor to the banking subsector as a financial penetration tool. A survey by PricewaterhouseCoopers (PwC) in 2016 found that about 83% of traditional financial institutions were concerned that their businesses would be overtaken by fintech. This is in line with the findings of Harefa and Kennedy (2018), who stated that the banking subsector could be disrupted by fintech, which may cause traditional banks to struggle. Fintech is supported by the public for its ease in financial transactions compared to the rigid and complex administrative processes of conventional banking. The complicated administrative processes and strict regulations are some of the reasons why traditional banking has not optimized its role in financial penetration.[24]The rise of fintech has led the public to shift towards fintech companies for loans, as they offer easier, faster, and more efficient loan services.[25]

Webster and Pizalla (2015) argue that the competition between fintech and traditional banking services has become increasingly intense each year due to the ongoing development of information technology. At the same time, fintech increases interest in modern financial services from progressive financial institutions that aim to maintain and strengthen their leading role in the field. Fintech is also capable of providing high-quality modern services in a convenient and efficient manner for their clients, anytime and anywhere.

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[23] https://www.kominfo.go.id/content/detail/11526/kemenkop-ukm-379-juta-umkm-sudah-go-online,

[24]Dikutip dari Ika Kristianti and Michella Virgiana Tulenan, "Dampak Financial Technology Terhadap Kinerja Keuangan Perbankan," *Kinerja* 18, no. 1 (2021), 58.

[25]Silvia Ika Anggreini and Arif Singapurwoko, "The Disruption of Fintech on Rural Bank: An Empirical Study on Rural Banks in Indonesia," *20th International Conference on Contemporary issues in Science, Engineering and Management (ICCI-SEM), At Singapore* 8, no. 5 (2019), 5.

Recently, collaboration between traditional financial institutions and fintech has developed because both parties see promising paths for further development.[26]

This reflects the predicted scenario of sharia community banks vis-à-vis fintech. Fintech is defined as a technology-based business that competes or collaborates with financial institutions. In another definition, fintech refers to innovative financial services or products delivered through new technologies. Based on this definition, sharia fintech can be understood as a technology-based business offering innovative financial services or products using sharia principles. Fintech promotes ethically responsible finance and presents opportunities to lead and influence all forms of finance globally.[27]

The growth of sharia fintech shows positive numbers. According to a report by Katadata, referring to the Global Fintech Islamic Report 2021, sharia fintech services in Indonesia rank fifth in the world.[28]In the report, Indonesia's sharia fintech market reached IDR 41.7 trillion (US$ 2.9 billion). Indonesia holds the top position globally in terms of the number of sharia fintechs, with a total of 61, accounting for around 16.27% of the total global sharia fintechs.[29]

The legalization of fintech is based on the Financial Services Authority Regulation (POJK) No. 77/POJK.01/2016 on Peer-to-Peer Lending Services Based on Information Technology, as amended by POJK No. 10/POJK.05/2022 on Technology-Based Crowdfunding Services. The rationale behind this regulation is the unavoidable development of information technology, which must be adapted, including in financial institutions. In the considerations of the regulation, it is stated that information technology has been used to develop the financial industry, encouraging the growth of alternative financing for the public. To support the growth of financial services institutions based on information technology and enable them to contribute more to the national economy, the Financial

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[26] Aam Rusydiana, "Bagaimana Mengembangkan Industri Fintech Syariah Di Indonesia? Pendekatan Interpretive Structural Model (ISM)," *Al-Muzara'ah* 6, no. 2 (2019), 119.
[27] Aam Rusydiana, "Bagaimana Mengembangkan Industri Fintech Syariah Di Indonesia? Pendekatan Interpretive Structural Model (ISM)," *Al-Muzara'ah* 6, no. 2 (2019), 119.
[28] https://katadata.co.id/desysetyowati/digital/60938af18196a/pasar-fintech-syariah-ri-terbesar-ke-5-dunia-banyak-pengguna-milenial, diakses pada tanggal 18 Januari 2023.
[29] https://databoks.katadata.co.id/datapublish/2022/09/15/daftar-negara-dengan-fintech-syariah-terbanyak-indonesia-juaranya, diakses pada tanggal 18 Januari 2023.

Services Authority issued the regulation on Technology-Based Peer-to-Peer Lending Services.

The legal foundation for fintech in Indonesia also includes the Financial Services Authority Regulation (POJK) No. 13/POJK.02/2018 on Digital Financial Innovation in the Financial Services Sector. The philosophy behind this regulation is twofold: first, as technology advances, digital financial innovations cannot be ignored and need to be managed to maximize their benefits for society; second, these digital financial innovations must be directed to ensure that they are responsible, safe, protect consumers, and manage risks effectively. Based on these two principles, the regulation was established. The rationale for this regulation is clear: the advancement of technology that gives rise to financial innovations cannot be ignored but must be managed and directed for the public good.

As for sharia fintech, its sharia compliance is based on the Fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) No: 117/DSN-MUI/II/2018 on Technology-Based Financing Services Based on Sharia Principles[30]. The rationale for this fatwa is twofold: first, technology-based financing services for micro, small, and medium enterprises (MSMEs) are rapidly growing in Indonesia, providing easy, fast, and efficient access to funding; second, there is a need for clarity regarding the legal provisions and limitations of technology-based financing services under sharia principles in Indonesia. This fatwa facilitates sharia-compliant MSME financing, which in turn may make fintech a more attractive choice than community banks, which have not yet been able to provide similarly convenient services.Financial technology (fintech) brings new hope for ease in various types of financial transactions across different sectors.[31]

Fintech can operate in a variety of sectors, with data from the Financial Services Authority (OJK) showing the breakdown of fintech companies in Indonesia: 1) financial planning, 2) crowdfunding, 3) lending, 4) aggregator, 5) payment, and 6) other fintech sectors. According to Hadad (2017), fintech companies in Indonesia are dominated by the payment sector (42.22%),

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[30]International Bank for Reconstruction and Development / The World Bank, *Leveraging Islamic Fintech to Improve Financial Inclution* (Kuala Lumpur, 2020), 41.
[31]Maulidah Narasati, "Financial Technology (Fintech) Di Indonesia Ditinjau Dari Perspektif Islam," *Indonesian Interdisciplinary Journal of Sharia Economics (IIJSE)* 2, no. 2 (2020), 157.

lending sector (17.78%), aggregator sector (12.59%), financial planning sector (8.15%), crowdfunding sector (8.15%), and other fintech sectors (11.11%). The payment sector, as the dominant sector, could threaten the existence of community banks, which are prohibited from providing payment services. This restriction may result in consumer disloyalty, as they cannot use community banks for payment systems connected to the National Payment Gateway. This issue is further exacerbated by the rise of e-commerce and the National Non-Cash Movement (GNNT) launched by Bank Indonesia on August 14, 2014, which aims to create a secure, efficient, and smooth payment system that will, in turn, improve the effectiveness and efficiency of the national financial system.[32]

The restriction and ban on providing limited payment traffic services prevent community Islamic banks from optimizing their banking services to the public, particularly micro and small businesses, to encourage sustainable national economic growth. Meanwhile, Bank Indonesia (BI) has established the National Payment Gateway (GPN) policy, which aims to create a national payment system that is smooth, secure, efficient, and reliable, while considering the advancements in information, communication, technology, and innovations that are increasingly competitive and integrated. Due to these restrictions and bans, BPR Syariah is unable to directly connect to the GPN system as stated in Article 4 paragraph (3) of Bank Indonesia Regulation No. 19/8/PBI/2017 concerning the National Payment Gateway.

Collaboration between Community Islamic Banks and Fintech as an Effort for Sustainability in the Digital Economy Era

The ban on community Islamic banks from providing payment traffic services has been in place for a long time, originating from the formulation of banking laws in 1992, when community banks were still very simple and traditional, and information technology was not as widely used in the Islamic financial services sector as it is today. The Constitutional Court's rejection of the petition concerning the prohibitive article in Decision No. 32/PUU-XX/2022 was based on the argument that the petition was legally unfounded. The petitioners argued that Article 1 number 9, Article 21 letter d, and Article

[32] Izzani Ulfi, "Tantangan Dan Peluang Kebijakan Non-Tunai: Sebuah Studi Literatur," *Jurnal Ilmiah Ekonomi Bisnis* 25, no. 1 (2020), 58.

25 letter b of the Islamic Banking Law essentially limit or prohibit BPR Syariah from providing payment traffic services. The implication is that Article 21 letter d of the Islamic Banking Law states that BPR Syariah cannot transfer money, either for its own benefit or for the benefit of its customers independently, but only through an account at Bank Umum Syariah, Conventional Banks, or Unit Usaha Syariah (UUS).

The failure of this petition was largely due to the petitioners' inability to convince the Constitutional Court judges regarding the legal arguments presented. However, this is not the end of the effort for community Islamic banks to provide limited payment traffic services. Judicial review is one way to revise the content of laws, and there is also the option of legislative review in Parliament, as the ban on community Islamic banks from engaging in payment traffic is seen as unjust and discriminatory. The participation of community Islamic banks in limited payment traffic is necessary to maintain the sustainability of the bank's operations and to provide more affordable, numerous, and faster services to customers and society at large.

There are several options for how community Islamic banks can provide payment traffic services in this digital economy era. *First*, as mentioned earlier, community Islamic banks still have the opportunity to transfer money, either for their own benefit or for their customers, independently, as long as it is done through the bank's account at Bank Umum Syariah. However, this can result in high costs for consumers. However, with the enactment of Law No. 4 of 2023 concerning the Development and Strengthening of the Financial Sector (UU P2SK), BPRS has been redefined as Bank Perekonomian Rakyat Syariah, which in its activities no longer provides direct giro-based payment services. Based on this definition, BPRS now has the potential to provide limited and indirect giro services. In addition, BPRS is also allowed, under the UU P2SK, to conduct fund transfers for its own benefit or for the benefit of customers without using the BPRS account in Bank Umum Syariah as previously required.

The ability to provide indirect giro services and carry out fund transfers, both for its own benefit and for customers, without going through conventional banks, as stated in Law No. 4 of 2023 (UU P2SK), reflects the regulator's awareness of gradually aligning BPRS with Bank Umum Syariah (BUS) in terms of equality. This alignment is crucial for achieving fair treatment and strengthening the financial industry, while enhancing BPRS' role in driving regional economies and developing UMKM (Micro, Small, and Medium Enterprises). The grant of these two authorities is aimed at expanding the activities of BPR Syariah to stimulate the national economy, although stronger oversight is necessary as part of the Financial Conglomeration.

To perfect the new authority granted to BPRS by the UU P2SK, and in order to provide equal treatment to BPRS and BUS customers while embracing the digital economy era and realizing the cashless payment campaign, it is crucial for Bank Indonesia (BI) to designate BPRS as a party connected to the National Payment Gateway (GPN). This system is designed to support transactions in the national e-commerce sector with the following goals: (a) Enhancing the role of the domestic payment system industry through the use of the latest technology and infrastructure-based innovations to provide services and products that meet public needs; (b) Expanding the reach of retail payment system products and services to increase cashless transactions and financial inclusion; (c) Improving security in transactions and consumer protection; (d) Structuring the payment system industry to perform functions like standardization, switching, and services; and (e) Achieving interoperability of the national payment system through interconnection of switches, ensuring a more efficient, secure, and reliable national payment system.

In relation to fund transfer activities, it is crucial for BPRS to be connected to BI-FAST, which would facilitate the transfer of funds for customers. BI-FAST is a national retail payment system infrastructure that enables real-time, secure, and efficient retail payments, available at any time. Bank Indonesia developed BI-FAST to meet the public's demand for more efficient, faster (real-time), and continuous fund transfer services. Currently, the Bank Indonesia National Clearing System (SKNBI) does not fully meet public needs due to service time limitations (according to window time) and the lack of real-time settlement and payment channel limitations, which ultimately reduce comfort in cashless transactions. BI-FAST is expected to strengthen the resilience of the national retail payment system by providing an alternative to the existing infrastructure.

The objective functions of the BI-FAST development are: (a) To support the consolidation of the national payment system industry and integration of the Digital Financial Economy end-to-end; (b) The BI-FAST policy is national-driven, aligned with Bank Indonesia's Regulation (PBI) on the Payment System (SP), Infrastructure Providers of Payment Systems (PIP), and Payment Service Providers (PJP), and the principles of SP which are CEMUMUAH (fast, cheap, easy, safe, and reliable); and (c) The development of BI-FAST aligns with the future policies of Bank Indonesia, including monetary policy, financial system stability, and payment systems, to create an integrated, interoperable, and interconnected (3i) ecosystem.

Second, the collaboration between Fintech Lending Syariah and BPRS Syariah can improve the quality of financing distribution through fintech lending by BPRS itself. With numerous branches and an extensive network spread across Indonesia, along with the experience and personal connections with customers, BPRS can enhance the quality of loan disbursements from fintech lending, strengthening both the fintech lending and BPRS industries across Indonesia.

Fintech, on one hand, represents a challenge for BPRS as mentioned previously, but on the other hand, it also presents an opportunity for the banking industry, including BPRS. As a challenge, fintech can be a competitor, but as an opportunity, fintech can also become a collaborato.[33] Additionally, fintech may also be acquired for its technological advancements. According to a 2016 survey by IDC's Digital Transformation in Banking Study, regarding global perceptions of fintech's presence in banks, 23.4% of respondents saw fintech as a competitor, while 34.2% considered fintech as a collaborator.[34]

According to the Indonesian Association of Peer-to-Peer Lending Fintech (AFPI), the memorandum of understanding between fintech and BPRS aims to enhance the quality and quantity of cooperation between BPRS and the Peer-to-Peer Lending Service Providers (LPMUBTI), based on Financial Services Authority Regulation No. 77/POJK.01/2016 of 2016, which has now been amended to Financial Services Authority Regulation No. 10/Pojk.05/2022 on Technology-Based Peer-to-Peer Lending Services (LPBBTI).

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[33]Hassnian Ali, Rose Abdullah, and Muhd Zaki Zaini, "Fintech and Its Potential Impact on Islamic Banking and Finance Industry: A Case Study of Brunei Darussalam and Malaysia," *International Journal of Islamic Economics and Finance (IJIEF)* 2, no. 1 (2019): 73–108.

[34]Jerry Silva Andrew Buss, Lawrence Freeborn, *The Digital Ready Bank How Ready Are European Banks for a Digital World* (Europe, 2016), 22.

This expansion of quality and quantity of cooperation involves several aspects:[35](a) Expanding and facilitating the distribution of funds by BPRS through LPBBTI providers registered with AFPI, (b) Expanding access to loans or funding for business actors by BPRS through LPBBTI providers registered with AFPI, (c) Increasing the funding capacity that can be provided by LPBBTI providers registered with AFPI, (d) Achieving and enhancing the welfare of the community and UMKM (Micro, Small, and Medium Enterprises) across Indonesia.

Fintech and BPRS can complement each other's weaknesses. The strengths of BPRS can cover what fintech lacks, and vice versa, fintech can cover what BPRS lacks. This collaboration is exemplified in the following table:[36]

Table 2: Fintech and BPRS Sollaboration

	BPRS	Fintech Pendanaan Bersama
Advantages	1. Spread across Indonesia 2. Understanding of local culture and characteristics, with a wider network of offices in the regions 3. Can become a funding source for Fintech Pendanaan Bersama	1. Faster technology adaptation 2. Varied service product innovations 3. Flexible transaction models
Limitations	1. Technology adaptation takes relatively longer: (a) Acquisition process requires time and is expensive because it is done face-to-face, (b) Risk analysis is	1. Uneven financial technology literacy across regions 2. Fully dependent on the quality of information technology

[35]SunuWidyatmoko (SekretarisJenderal AFPI, CEO DompetKilat) "Potensi Kerjasama BPR – BPRS dengan Fintech Pendanaan Bersama (Peer to Peer Lending)" disampaikan pada FocusGroupDiscussion (FGD)Perbarindo Rabu, 27 Juli 2022.

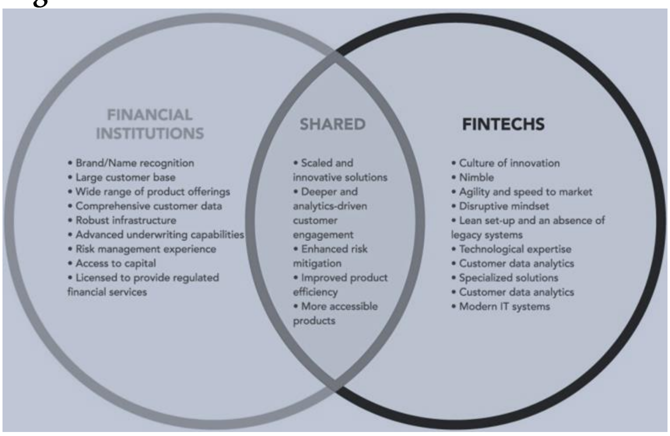
[36] DEPARTEMEN PENELITIAN DAN PENGATURAN PERBANKAN and OTORITAS JASA KEUANGAN, *Panduang Kerjsama BPR Dan Fintech Lending* (Jakarta: Otoritas Jasa Keuangan Republik Indonesia, 2021), 14.

	limited because it is done manually. 2. Limited human resources in financial technology	infrastructure 3. Limited ability for direct visits

Source: data identified by the authors

Based on the above, there is a mutualistic symbiosis in the collaboration between BPRS and Fintech. This can also be seen in the image below: [37]

Figure 1: he collaboration between BPRS and Fintech



Source: "How Financial Institutions and Fintechs Are Partnering for Inclusion: Lessons from the Frontlines", Institute of International Finance & Center for Financial Inclusion, 2017

Referring to the image above, the collaboration between BPRS and Fintech can provide benefits in the development of innovative solutions to face digitalization, improve quality and deepen analysis of customers and potential customers, enhance risk mitigation, product efficiency, and add products that can be used by customers/potential customers. The development of information technology impacts BPRS. Fintech lending is a business model

[37] Sonja Kelly, Dennis Ferenzy, and Allyse McGrath, *How Financial Institutions and Fintechs Are Partnering for Inclusion: Lessons from the Frontlines* (France, 2017), 6.

innovation in the financial sector born from technological infrastructure that can be an opportunity for the BPRS industry to expand its target market through collaboration. This is because it can expand the customer base in general and the market segment demanding strong online services in particular.[38]On the other hand, for fintech, cooperation with the BPRS industry can add funding sources for fintech lending.

According to the Board of Governors of the Federal Reserve System, the Central Bank of the United States, there are several things to consider when establishing cooperation between community banks and fintech, including:[39](a) business experience and qualifications, including business plans and strategies, qualifications and backgrounds of directors and company leadership; (b) financial condition, including financial analysis and funding, as well as market information; (c) compliance with laws and regulations; (d) risk management and control; (e) information security; information security programs and information systems; (f) operational resilience; business continuity planning and incident response, service level agreements, and reliance on subcontractors.[40]

Seeing the benefits that both parties (BPRS and Fintech) can achieve, cooperation can be carried out.[41]There are two cooperation design models that can be implemented: first, channelling, which involves providing funding to borrowers through the fintech lending platform, with funding risk borne by BPRS. Fintech lending has limited authority according to the provisions and

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[38]Ram N. Acharya, Albert Kagan, and Srinivasa Rao Lingam, "Online Banking Applications and Community Bank Performance," *International Journal of Bank Marketing* 26, no. 6 (2008), 435.V Kagan, A., Acharya, R. N., Rao, L.S., & Kodepaka, "Does Internet Banking Affect the Performance of Community Banks?," *American Agricultural Economics Association Annual Meeting, Providence, Rhode Island* July 24-27, no. September (2005).

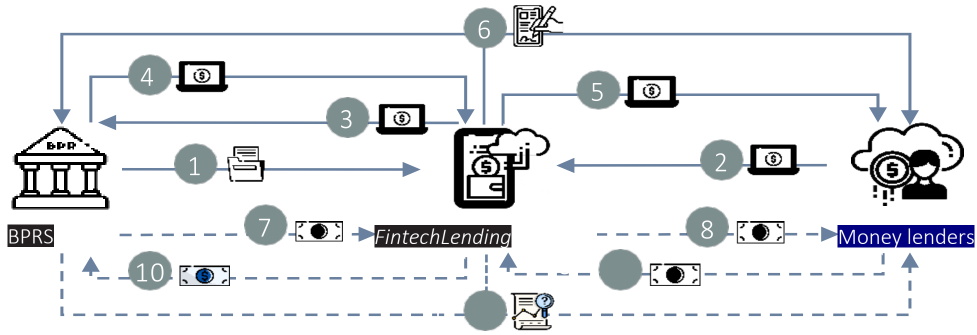
[39]Board of Governors of the Federal Reserve System, *Conducting Due Diligence on Financial Technology Companies A Guide for Community Banks* (United State, 2021), 3-17. Division of Banking Supervision and Regulation, Division of Consumer and Community Affairs, and Board of Governors of the Federal Reserve System, *Guidance on Managing Outsourcing Risk*, vol. 2015 (United State, 2013), 4-5.

[40]Idah Zuhroh, "The Impact of Fintech on Islamic Banking and the Collaboration Model: A Systematic Review Studies in Indonesia," *Jurnal Perspektif Pembiayaan dan Pembangunan Daerah* 9, no. 4 (2021): 302–312.Julapa Jagtiani and Kose John, "Fintech: The Impact on Consumers and Regulatory Responses," *Journal of Economics and Business* 100 (2018): 1–6.

[41]N Nasfi et al., "Fintech Supporting Sharia Rural Bank," *Journal of Industrial Engineering & Management Research* 3, no. 1 (2022), 19.

cooperation agreements with BPRS. A description of the cooperation model flow can be seen in the image below:

Figure 2: The Cooperation Agreements between Fintech and BPRS

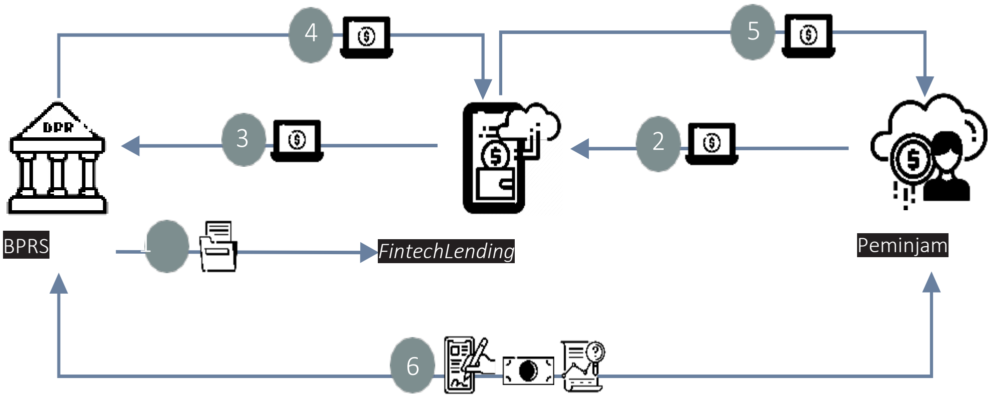


Source: "How Financial Institutions and FintechsAre Partnering for Inclusion: LessonsfromtheFrontlines", Instituteof International Finance & Center for Financial Inclusion, 2017

The flow described above is as follows: 1) Signing of the cooperation agreement (PKS) and Power of Attorney between BPR and Fintech Lending (the PKS includes the details of the cooperation scheme and the submission of the borrower's criteria from BPR to Fintech in the form of Risk Acceptance Criteria/RAC); 2) Loan application by the potential borrower through the Fintech Lending platform; 3) If the potential borrower meets the RAC criteria, Fintech Lending submits borrower information to BPR in the form of a factsheet and/or other documents as agreed in the PKS; 4) BPR conducts an assessment and provides approval to Fintech Lending; 5) Fintech Lending sends loan approval to the borrower; 6) Signing of the loan agreement; 7) Transfer of funds from BPR to Fintech Lending; 8) Transfer of funds from Fintech Lending to the borrower; 9) Repayment of the loan by the borrower to Fintech Lending; 10) Transfer of loan repayment funds from Fintech Lending to BPR; 11) Monitoring of the borrower is jointly conducted by BPR and Fintech Lending with responsibility shared as stipulated in the PKS.

Second, referral, which involves direct funding by BPRS to the borrower referred by Fintech Pendanaan Bersama, according to the cooperation agreement. BPRS conducts all funding analysis before the funds are disbursed. The flow description can be seen in the image below:

Figure 3: BPRS Funding Analysis



Source: "How Financial InstitutionsandFintechsArePartneringforInclusion: LessonsfromtheFrontlines", Instituteof International Finance & Center for Financial Inclusion, 2017

Explanation: 1)Signing of Cooperation Agreement (PKS) between BPR and Fintech Lending (PKS includes the cooperation scheme details); 2) Loan application by the potential borrower through the Fintech Lending platform; 3) If the potential borrower meets the criteria stated in the PKS, Fintech Lending submits borrower information to BPR with the documents and substance as agreed in the PKS; 4) BPR conducts an assessment of the data and information about the potential borrower and then provides funding approval to Fintech Lending; 5)Fintech Lending submits loan approval to the borrower, informing that the next loan process will be handled directly by BPR; 6) Loan agreement signing, collateral binding (if any), disbursement of funds, monitoring, and repayment of installments are done between BPR and the borrower/debtor, without involving Fintech Lending.

However, looking at the implementation of BPRS's financing products introduced by the Financial Services Authority (OJK), it is seen that the core product is the disbursement of funds, while the collection of funds from the public is not part of the cooperation scheme. This could create problems if the outflow of funds is not matched by an inflow of funds for BPRS. Therefore, it is essential to design a cooperation model that includes fund collection, ensuring a balance between disbursing funds and collecting funds from the public to ensure the sustainability of BPRS's business. OJK, through Regulation No. 25/POJK.03/2021, stipulates that BPRS products can be technology-based.

Regarding the implementation of technology, according to Article 2 of OJK Regulation No. 75/POJK.03/2016, for BPR or BPRS with core capital of less than IDR 50 billion, at least the following technologies should be implemented: (a) Core Banking Application and Data Center. For BPR or BPRS with core capital of at least IDR 50 billion, the following technologies should also be included; or (b) Core Banking Application, Data Center, and Disaster Recovery Center for BPR or BPRS with a minimum core capital of IDR50 billion.These technologies can be implemented independently or in collaboration with an information technology service provider. If outsourced, the services may include: 1) Core banking application; 2) Data center; 3) Disaster recovery center; 4) Other information technology services according to the regulations.

Additionally, the above model does not focus on consumer sovereignty in using their funds in BPRS, as consumers cannot use their savings for payments. This needs to be addressed to avoid BPRS becoming a community bank, which according to John Waupsh, could be "damaged".[42]A comparison can be made with the partnership between Diamond Trust Bank (DTB) and KopoKopo in Kenya and Uganda to serve retail traders. KopoKopo equipped East African retailers to accept digital payments and offer small loans. In Uganda, KopoKopo and DTB collaborated to create PayEasy, a mobile wallet connected to DTB accounts. The wallet receives Airtel Money and MTN Mobile Money via the POS system. In Kenya, KopoKopo and DTB partnered with Mastercard to build QR payment capabilities for retailers. Customers scan the QR code on their phones, enter the amount to be paid, and the retailer receives the payment without needing additional devices. This partnership helped DTB focus on reaching SMEs, which are KopoKopo’s main customer base. DTB provides access to full banking functions for KopoKopo traders, and KopoKopo provides the technology and payment platform, along with access to its extensive retail trader network. DTB sees this partnership mainly as a customer acquisition strategy—every KopoKopo

[42]John Waupsh, *Bankruption: How Community Banking Can Survive Fintech*..., 7

retailer in Uganda will have a bank account at DTB. Although the partnership with KopoKopo did not necessarily reduce the costs of serving these traders, it significantly lowered the cost of acquiring them. For KopoKopo, the partnership improved its product offerings for traders, boosting usage of its services.[43]

According to the Board of Governors of the Federal Reserve System, community bank partnerships with fintech can vary depending on the bank's strategic goals and risk profile. Three broad categories of partnerships emerged during outreach discussions,[44]the first of which is operational technology partnerships, where community banks deploy third-party technology into their own processes or infrastructure to enhance efficiency and effectiveness. Operational technology partnerships with fintech aim to improve bank processes, monitoring capabilities, or technical infrastructure. Since these partnerships involve upgrading the bank's internal systems, they may not be visible to the bank's customers. Operational technology partnerships can be formed to streamline existing processes or to enhance the bank's ability to meet regulatory requirements (also referred to as "regtech" solutions). For example, technology that automates aspects of the lending process can save time and resources, and potentially reduce credit underwriting costs. Additionally, technology that improves fraud detection or provides more reliable customer authentication can strengthen the bank's ability to comply with the Bank Secrecy Act/Anti-Money Laundering (BSA/AML) requirements. Operational technology solutions aim to reduce the potential for errors, create efficiencies, and allow for the reallocation of resources to other bank functions. These partnerships may also be easier to implement than other types of partnerships,

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[43]Kelly, Ferenzy, and McGrath, *How Financial Institutions and Fintechs Are Partnering for Inclusion: Lessons from the Frontlines*..., 24. Ini terjadi setelah penyedia layanan pedagang, Kopo Kopo, mengumumkan kemitraan mereka dengan Mastercard pada Maret 2017, untuk meluncurkan Masterpass QR di sebelas pasar di Afrika Sub-Sahara, yang berdampak pada lebih dari 250.000 usaha mikro, kecil dan menengah (UMKM) selama lima tahun ke depan. . Kopo Kopo akan bekerja sama dengan DTB untuk memastikan solusi menjangkau seluruh jaringan mereka, memenuhi kebutuhan pedagang yang bekerja di berbagai sektor di negara ini. https://newsroom.mastercard.com/mea/press-releases/dtb-and-mastercard-partner-to-enhance-digital-payments-in-kenya/, diakses pada tanggal 6 Februari 2023

[44]Board of Governors Federal Reserve System, *Community Bank Access to Innovation through Partnerships* (United State, 2021).

as they typically require less complicated integration with existing technology infrastructure.

Second, customer-oriented partnerships, where community banks involve third parties to enhance various customer-facing aspects of their business, and the bank continues to interact directly with its customers. For example, several community banks have stated that they partner with fintechs to explore tools for online account opening, facilitate access to goal-based savings apps, integrate apps that simplify person-to-person (P2P) money movement, or refine their existing mobile deposit platfor.[45] Customer-oriented partnerships can improve the ability of community banks to meet and exceed customer needs and expectations. In the 2020 National Community Bank Survey by the Conference of State Bank Supervisors, over 63% of respondents said adopting new or emerging technologies was important or very important to meet customer demand.[46] For instance, partnerships with fintech can help build a digital front-end for community banks to facilitate initial customer authentication, account opening, and loan origination without requiring customers to visit a physical branch. Developing a comprehensive suite of digital banking services can be useful for national deposit collection. In some cases, this model also allows the bank to branch into loan products for geographically dispersed borrowers. In addition to supporting the core business growth of community banks, bankers noted that customer-oriented partnerships can enhance their agility in serving customers. Almost all participants emphasized the importance of a customer-friendly digital banking environment in the context of the COVID-19 pandemic. In response to the pandemic, many community bankers partnered with fintech or with their core providers to quickly develop and launch Payroll Protection Program (PPP) application modules for their clients.

Third, front-end fintech partnerships, where a bank's infrastructure is combined with technology developed by fintechs, with fintech interacting directly with the end customer in delivering banking products and services.

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[45]L. Y. Sloboda and O. M. Demianyk, "Prospects and Risks of the Fintech Initiatives in a Global Banking Industry," *The Problems of Economy* 1, no. 43 (2020), 281.
[46]Conference of State Bank Supervisors, Community Banking in the 21st Century, 2020 Research and Policy Conference, https://www.csbs.org/sites/default/files/2020-09/cb21publication_2020.pdf. The annual conference is co-sponsored by the Conference of State Bank Supervisors, the FDIC, and the Federal Reserve System.

Separate from and less common than customer-oriented and operational technology partnerships, some community banks have engaged in relationships where fintechs interact directly with customers in providing banking products and services. These partnerships represent an evolving business approach sometimes referred to as "Banking as a Service." This partnership generally involves a combination of bank infrastructurespecifically, the ability to accept deposits, access payment rails, extend credit, or issue debit and credit cardswith fintech technology. These relationships encompass various practices concerning the technical connections between the bank and fintech, the strategic goals of both parties, and how compliance frameworks and risk management are built throughout the relationship. These partnerships offer several potential benefits to community banks, including opportunities to reach new or broader customer segments that the bank may not be able to reach through traditional or established channels. These new customers have the potential to drive increased deposit gathering, diversify the existing loan portfolio, and generate additional non-interest revenue, such as transaction fees. These partnerships can also provide more intangible benefits. Some community bankers cite front-end fintech partnerships as an opportunity to enhance the bank's existing technology capabilities while partnering with fintechs with a rapidly growing digital customer base.

The partnership models described above are believed to be effective if there are three key elements:[47](a) Commitment to Innovation, Community banks that are committed to innovation state that their senior management and board of directors are ready to make significant investments of time and resources in technology. Before making investments in technology, leadership identifies the problems that need to be solved and the benefits they aim to achieve from these investments, often using key performance indicators and concrete objectives.(b) Alignment of Priorities and Goals, The alignment of priorities and goals between fintech and community banksseen by participants as the foundation for building and maintaining effective partnershipscan include but is not limited to agreements on the proper use of customer data, setting effective risk management standards, mutual emphasis on regulatory compliance, and a shared belief in the importance of frequent and direct

[47]Board of Governors Federal Reserve System, *Community Bank Access to Innovation through Partnerships...*, 9-15.

communication.(c) Prudent Approach to Connectivity, Community banks that approach connectivity with fintech carefully have considered the trade-offs in terms of flexibility, costs, the breadth of partner selection, and convenience before establishing technical connections. Connectivity with fintech is viewed as part of an integrated process where information can flow across systems, and separate banking processes are eliminated where possible.

Conclusion

The study concludes that legislative restrictions prevent Islamic community banks from offering direct debit services to maintain their role in serving economically weak groups, including small-scale businesses across various sectors, most of which lack formal legal status. Furthermore, restrictions on payment traffic services hinder these banks' ability to effectively support micro and small businesses, thereby limiting their contribution to sustainable economic growth. Regulatory constraints also prevent Islamic community banks from directly integrating with the National Payment Gateway (GPN). To address these challenges, Islamic community banks can collaborate with Sharia fintech lending to enhance financing distribution. Their extensive networks, strong customer relationships, and local expertise improve the quality of fintech lending, benefiting remote areas and strengthening both the fintech lending and Islamic banking industries.

Future research should focus on exploring innovative collaboration models between Islamic community banks and Sharia fintech lending to optimize financial services for micro and small businesses. Studies could examine the integration of digital platforms with existing banking infrastructures, emphasizing strategies to enhance accessibility and efficiency in underserved areas. Additionally, researchers should investigate regulatory adjustments that enable Islamic community banks to participate in the National Payment Gateway (GPN) while maintaining their philosophical mandate to support economically weak groups. Such research could provide valuable insights for policymakers and industry stakeholders to strengthen the synergy between Islamic community banks and fintech, fostering inclusive economic growth.

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