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The Transformation of Conventional Banking and the Impact of Fintech on Customer Loyalty

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Abstract

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Conventional banking in Indonesia remains a fundamental pillar of the national financial system despite facing rapid disruption from financial technology (fintech). Digitalization, increasing smartphone penetration, and the growing demand for financial inclusion have accelerated the transformation of the banking industry landscape. The presence of fintech provides faster and more convenient access to financial services, yet at the same time poses significant challenges for conventional banks in retaining customer loyalty. This study examines the relationship between fintech development, the competitiveness of conventional banking, and customer loyalty using the Systematic Literature Review (SLR) method on publications. The findings reveal that customer loyalty continues to be influenced by service quality, trust, and the additional value delivered by banks, even though fintech offers innovative alternatives. Therefore, conventional banks must transform through digitalization, collaboration with fintech, and service innovation to maintain customer loyalty amid competition. These findings provide strategic insights for the national banking industry in managing change and ensuring sustainable operations.

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1. Introduction

Conventional banking in Indonesia has long played a role as one of the main pillars in supporting the stability and development of the national financial system. Its presence is not limited to its basic function as an institution that gathers public funds, but also as a provider of financing in the form of credit that serves as the driving engine for national economic growth. Conventional banks, as intermediary institutions, work based on general economic principles that emphasize a balance between fund collection and distribution, with the interest mechanism as the main instrument of reward or compensation. All these activities are carried out under the regulatory and supervisory framework of the Financial Services Authority (OJK), which is tasked with ensuring the banking system remains healthy, stable, and capable of protecting the interests of customers and the wider economy (Nasution. 2023).

However, in the last decade, the national banking industry has faced serious challenges stemming from financial technology or fintech disruption. The presence of fintech offers advantages such as operational efficiency, wider service accessibility, and a much more personal and faster customer experience compared to traditional banking services (Mainardes & Freitas, 2023). This change has redefined public expectations of modern financial services. The presence of fintech is not just a complement, but has become a real competitor for conventional banks, thus demanding a comprehensive transformation of business models and service strategies.

The phenomenon of accelerating digitalization in the financial sector has become even more prominent after the world faced the COVID-19 pandemic. The pandemic situation has changed the behavior patterns of people who previously relied on face-to-face transactions to switch to digital-based services, from fund transfers, bill payments, to the purchase of investment products. The increase in smartphone ownership, the development of public digital literacy, and the need for fast, efficient, and secure financial services have accelerated the growth of fintech in Indonesia. In this context, conventional banks must move adaptively to remain relevant amidst the strong currents of competition. Digital transformation, product innovation, and the integration of technology-based services have become strategic steps that cannot be avoided (Fageh & Iman, 2021).

Although the development of fintech is so rapid, customer loyalty remains a key to the long-term survival of conventional banking. Loyal customers can provide sustainable financial contributions, both through an increase in transaction volume and the willingness to use various bank products. Not only that, loyalty also creates a domino effect in the form of positive recommendations from old customers to new potential customers, which ultimately strengthens the bank's image and competitiveness. In this framework, customer loyalty cannot be seen as just a matter of technology, but also concerns deeper psychological and social aspects (Fauzi & Suryani, 2019).

Therefore, it is interesting to further analyze how the transformation of conventional banking in Indonesia occurs as a response to the onslaught of fintech, and to what extent these changes affect customer loyalty. This research seeks to present a comprehensive understanding of the dynamics of competition between traditional banks and fintech, accompanied by the identification of strategies that can be taken by conventional banks to be able to maintain their existence and strengthen long-term relationships with their customers. This study uses the Systematic Literature Review (SLR) method on various recent academic publications, so it is expected to produce a comprehensive, measurable, and relevant overview of the latest developments in the banking world. With this approach, the research not only provides a theoretical contribution to understanding the phenomenon of digital disruption, but also provides practical implications for the banking industry. The results are expected to serve as a reference for conventional banks in formulating business strategies that are more adaptive, oriented towards satisfaction, and based on strengthening customer loyalty in the midst of a constantly changing financial landscape.

2. Literature Review

2.1. Conventional Banking and the Development of Fintech in Indonesia

Financial technology or fintech is an innovative breakthrough that fundamentally changes the paradigm of traditional financial services. The presence of fintech not only brings a new concept to the way people interact with financial products, but also offers advantages that are difficult to compete with by conventional service models, namely transaction speed, ease of access, and much lower cost efficiency compared to traditional bank services (Kadir, 2023). With this combination of factors, fintech is able to present a financial service experience that is more practical, secure, and in line with the needs of modern society which is increasingly digital.

The impact on the sustainability of conventional banks in Indonesia is very significant. One of the advantages of fintech lies in its ability to reach segments of society that were previously unserved by the formal banking system, either due to limited geographical access, a lack of financial literacy, or administrative barriers (Iman et al., 2023). This phenomenon shows how fintech is able to expand financial inclusion while challenging the dominance of conventional banks that have been the main foundation of the national financial system. Facing this reality, conventional banks in Indonesia have no choice but to make strategic adjustments. One of the most crucial steps is to integrate digital technology into all aspects of their operations, from customer service, financing products, to risk management systems. This digital transformation is not just a short-term need, but is an important strategy to maintain relevance, increase competitiveness, and retain customer loyalty amidst the ever-developing fintech disruption.

2.2. Customer Loyalty in the Competition between Banks and Fintech

Citation Customer loyalty in the banking industry is a fundamental aspect that determines the long-term sustainability of a financial institution. The determining factors for loyalty are no longer limited to product prices or ease of making transactions, but also include deeper dimensions such as the level of trust, emotional satisfaction, and the consistency of service quality provided by the bank over time (Chasanah, 2023). When customers feel they are being treated fairly, have a satisfying service experience, and are confident that their funds are secure, it is highly likely that loyalty will be formed and maintained.

A number of studies show that even though financial technology (fintech) is increasingly popular by offering fast and practical services, many customers still feel that conventional banks have an irreplaceable advantage. This advantage is especially visible in the aspects of fund security, compliance with regulations, and long-term reputation that have been built through their presence and experience over decades (Mainardes & Freitas, 2023). This means that even though fintech can bring efficiency and convenience, the factors of trust and credibility are still the main added value of conventional banks. Given this condition, the biggest challenge for conventional banks is how to combine their traditional strengths, such as extensive networks and regulatory legitimacy, with digital innovation which is now a market demand. This combination is a key strategy for banks to not only retain the loyalty of old customers but also attract a new generation that is increasingly accustomed to technology-based financial services.

3. Methods

This research adopts the Systematic Literature Review (SLR) method which is specifically designed to examine, select, and synthesize various relevant academic literature that has been published previously. Through this approach, researchers aim to obtain a more comprehensive understanding of the dynamics of conventional banking transformation in Indonesia, especially in facing fintech disruption and its implications for customer loyalty. The literature search was carried out by utilizing national and international-scale scientific databases, one of which is Google Scholar and Research Gate, using keywords such as conventional banking, fintech, customer loyalty, and Indonesia.

The first stage in implementing the SLR is the identification of relevant articles. Of the dozens of academic articles found through the search process, a filter was carried out to select only research that met certain methodological criteria and had a direct connection to the context of the banking industry in Indonesia. This selection process ensures that the literature used is of good academic quality and is relevant to the research objectives. The second stage includes data extraction, which is the process of exploring the contents of each selected article to find the main themes that appear frequently. Some important themes successfully identified include the integration of digital technology into banking services, the influence of digitalization on the stability of the national financial system, and the factors that influence the formation of long-term customer loyalty.

The third stage is narrative synthesis, which is the stage where all the results of the analysis are compiled, compared, and rearranged to produce a comprehensive picture of patterns, trends, and research gaps that still exist. The SLR method was chosen because it is considered the most appropriate to provide a comprehensive overview of the development of the national banking industry in the era of digitalization. In addition, this method is also able to explain in depth the strategic implications that must be considered by conventional banks in maintaining and strengthening customer loyalty amidst increasingly competitive competition.

4. Results

The transformation of conventional banking in Indonesia in facing the development of fintech is not a simple phenomenon, but is multidimensional and complex. This process reflects the close interaction between the dynamics of technological change, regulatory adjustments, and changes in customer behavioral preferences. From the results of the literature review, it can be seen that conventional banks still have a central role in maintaining the stability of the national financial system, because of their function as an intermediary institution that has long been trusted by the public. However, the dominant position that conventional banks have held for several decades is now increasingly eroded by the emergence of digital services offered by fintech. This change does not only affect the banking business model internally, but also creates new dynamics in terms of customer loyalty which is the main factor of competitiveness in the digital era. In responding to this challenge, innovative strategies have become a crucial foundation for business success in facing changing dynamics. One of the main findings of this research is that the use of disruptive technology is the main key to winning the competition. From artificial intelligence (AI) to technology, technological innovation allows businesses to expand the boundaries of possibility and increase their operational efficiency (Mithas et al., 2022).

Historically, conventional banks in Indonesia have successfully built a reputation through an extensive service network, a security system that is strictly supervised by regulators, and the creation of an emotional relationship between customers and the financial institutions they use. Public trust in conventional banks is formed over time through repeated interactions, clear regulations, and long experience in providing financial services. However, since smartphone penetration has expanded and digitalization has become more massive after the COVID-19 pandemic, the consumption patterns of community financial services have undergone a significant shift. Customers today not only look for secure institutions, but also want services that are faster, more flexible, transparent, and accessible at any time. Fintech then comes to answer these needs through various online-based applications that allow for instant transactions, micro-lending, to digital investment services with procedures that are relatively simpler than conventional banks (Mainardes & Freitas, 2023).

This phenomenon encourages conventional banks to immediately carry out digital innovation in their business models. Various banks in Indonesia have launched mobile banking applications with increasingly diverse features, expanded internet-based service channels, and adopted the concept of open banking which allows integration with fintech platforms (Indriasari et al., 2022). This effort shows that banks are aware of both the threats and opportunities offered by digital technology. However, the literature also confirms that the adoption of technology among conventional banks often runs slower than fintech. This is due to various factors, such as a high attachment to strict regulations, a complex and bureaucratic organizational structure, and the high costs required to invest in large-scale technology. This condition makes fintech more agile in innovating and faster in gaining the trust of young segments of society who prioritize the aspects of ease, speed, and service convenience (Iman et al., 2023).

In the context of customer loyalty, there is an interesting shift in patterns to pay attention to. On the one hand, conventional banks still have a competitive advantage in terms of fund security, service stability, and long-term reputation. Customers who have a long relationship with the bank tend to be reluctant to switch completely, especially in the use of high-value and high-risk financial products, such as savings, deposits, and credit facilities with large loan amounts. This loyalty is formed due to factors of trust in the strict regulatory system run by the OJK, as well as the guarantee of customer protection through clear legal instruments. On the other hand, fintech actually offers a more personal user experience. Through recommendation algorithms, data-based services, and relatively low transaction fees, fintech is able to attract the attention of new segments of society, especially millennials and Gen Z. This generation tends to be more willing to try non-traditional financial services because they prioritize speed, convenience, and interactive digital experiences (Fageh & Iman, 2021).

The literature review also shows that customer satisfaction is the main determinant in building and maintaining loyalty. Consistent service quality, transparency in delivering information, and the speed of problem-solving are factors that are highly considered. When conventional banks fail to meet these expectations, customers can quickly switch to fintech services which are considered more responsive and adaptive. However, loyalty is not only determined by rational satisfaction, but also by the perception of value offered and the level of emotional trust in the financial institution. Therefore, conventional banks that are able to integrate modern digital services with the reputation and trust they have built for a long time have the potential to maintain loyalty, and even expand their customer base amidst the pressure of digital competition (Fauzi & Suryani, 2019).

One strategy that is now widely taken by conventional banks is to collaborate with fintech (Doshi, 2022). Instead of viewing fintech solely as a threat that has the potential to erode the market, some banks choose a partnership strategy in the development of digital products. The forms of cooperation that emerge are quite diverse, ranging from integration in payment gateway services, digital platform-based loans, to the provision of electronic wallet services that are directly connected to bank accounts. This collaborative strategy allows banks to expand the financial service ecosystem without having to build all digital infrastructure from scratch. Research shows that this kind of cooperation not only helps banks adapt faster but also increases customer satisfaction. Customers feel they are getting more complete, modern, and needs-based services, but still with the security guarantee offered by conventional banks (Fageh & Iman, 2021).

Apart from opportunities, banking digitalization also presents new challenges, especially in terms of data security and regulation. In this regard, the role of the OJK and Bank Indonesia is very important to ensure that digital transformation continues to run in a clear legal framework and does not pose a systemic risk to the stability of the national financial system. Failure to maintain cybersecurity can drastically reduce the level of customer trust, which in turn erodes loyalty. Therefore, issues such as personal data security, consumer protection, and regulatory compliance are strategic factors that cannot be ignored by banks in maintaining public trust. In the literature, the aspect of cybersecurity is even often considered one of the most important pillars in modern customer loyalty, because data leaks or cyberattacks can have fatal consequences for the reputation of financial institutions (Paul et al., 2023).

The literature analysis also confirms that customer loyalty in the digital era is no longer solely based on financial transactions, but also on the emotional and social experience offered by the bank. More personal interactions through digital platforms, data-based loyalty programs, and intensive two-way communication are ways to strengthen long-term relationships with customers. This shows that loyalty is now increasingly multidimensional, involving a combination of functional satisfaction, emotional value, and institutional trust. Banks that are successful in providing this comprehensive experience will have a greater chance of maintaining long-term relationships with their customers (Mainardes & Freitas, 2023).

Thus, the results of the literature review confirm that although fintech has significantly changed the landscape of the Indonesian financial industry, conventional banks still have great opportunities to retain customer loyalty. The key is through targeted digitalization adoption, building strategic collaborations with fintech, and strengthening the trust aspect that has long been the main capital of conventional banks. This transformation requires a strategy that is not only oriented towards technological efficiency, but also on building long-term relationships based on satisfaction, trust, and real added value for customers. Banks that are able to effectively merge the reliability and trust built through traditional banking practices with the efficiency, speed, and convenience offered by digital innovation have a greater opportunity to strengthen their position, expand their customer base, and ultimately become key players in shaping the future financial ecosystem on both national and global scales.

5. Discussion

The research results show that there is a very complex dynamic of competition between conventional banking and financial technology-based service providers or fintech. This phenomenon reflects a major shift in the landscape of the Indonesian financial industry. On the one hand, fintech is able to attract the attention of new customer segments, especially the younger generation, through the advantages of diverse product innovation, higher service speed, and a relatively low cost structure which makes it more affordable. Flexible digital services, easy to access at any time, and supported by personalization algorithms make fintech increasingly accepted by modern society. However, on the other hand, conventional banks still have an advantage that is not easily replaced, especially in terms of security, compliance with strict regulations, and the existence of a well-established physical service network throughout Indonesia (Yuspin et al., 2023). This situation shows that the relationship between the two cannot be viewed solely as a competitive one, but also has a collaborative nuance, where both have the potential to complement each other.

One of the important discussions that emerged from the literature is about how customer loyalty is formed and maintained in an ever-developing digital financial ecosystem. If in the past customer loyalty was largely influenced by personal closeness with bank officers, direct interaction at branch offices, and the existence of a physical network, now loyalty is increasingly determined by the quality of the digital experience offered. Modern customers want services that are practical, responsive, and able to meet their needs quickly and transparently. Therefore, conventional banks that are late in carrying out digital transformation are at great risk of losing the more dynamic young customer segment. Conversely, banks that are quick to adapt and able to integrate digital services comprehensively actually have the opportunity to strengthen a wider loyalty base. Apart from the issue of service innovation, the aspects of regulation and security are the main distinguishing factors between banks and fintech. Although fintech offers many conveniences, many customers still feel that conventional banks have an advantage in maintaining the stability of the financial system because they are under the strict supervision of regulators.

However, this positive perception can easily collapse if the bank fails to protect personal data or experiences a security incident. Therefore, strengthening cybersecurity strategies and compliance with applicable regulations is a priority that cannot be ignored by banks in maintaining public trust in the long term. Furthermore, the results of the analysis also show that collaboration between conventional banks and fintech can actually provide significant added value for customers. The integration of services between the two parties allows for the formation of a financial ecosystem that is more inclusive, modern, and innovative. For banks, collaboration is not just a survival strategy in the midst of disruption, but also a great opportunity to expand their customer base through the use of new technology. The literature confirms that customer loyalty in the future will no longer be influenced by the dichotomous choice between banks or fintech, but by which party is able to present the best, most comprehensive, and sustainable financial experience for its customers.

6. Conclusion

This research concludes that conventional banking in Indonesia faces a major challenge from the development of fintech, but still has a significant opportunity to retain customer loyalty. Loyalty in the banking context is no longer only influenced by traditional factors such as personal closeness or regulatory security, but also by the quality of the digital experience, service speed, and technology integration. Fintech has expanded access to financial services and provided a more flexible alternative for the public, especially the younger generation. However, conventional banks still have strengths in the aspects of trust, regulation, and extensive networks. The key strategies that can be taken are service digitalization, strengthening cybersecurity, and collaboration with fintech to create a more inclusive financial ecosystem. By combining digital innovation and traditional reputation, conventional banks can build stronger and more sustainable customer loyalty. Therefore, the transformation of conventional banking in Indonesia is not just a technological necessity, but a fundamental strategy to maintain sustainability and competitiveness in the digital financial era.

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