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Digital Bank Entry and Competitive Dynamics in Indonesia's Retail Banking Market

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Abstract

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This article examines how digital bank entry reshapes competitive dynamics in Indonesia's retail banking market and under what conditions entry strengthens contestability versus preserving market power. Using a systematic literature review of peer-reviewed studies, the article consolidates evidence on how digital-only banks, incumbent digital subsidiaries, and fintech-led substitution affect rivalry, pricing conduct, and market structure. The reviewed findings indicate that digitalization tends to intensify competition in acquisition-heavy segments where onboarding is frictionless and price comparison is easier, yet market power can persist where informational switching costs, behavioral inertia, and ecosystem lock-in remain. The discussion organizes results around three lenses: how "entry" is operationalized, the mechanisms linking entry to rivalry (switching costs, network effects, and operating-model efficiency), and Indonesia-specific institutional conditions such as governance expectations and interoperability. Overall, the synthesis suggests that digital entry reorganizes competition into contested and less contested pockets rather than generating uniform price competition, highlighting the central role of interoperability and data portability in shaping outcomes.

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1. Introduction

Digital transformation is reshaping retail banking by lowering search and transaction costs, accelerating product iteration, and shifting competition from branch networks toward data, user experience, and ecosystem partnerships. In many emerging markets, these forces have enabled digital-only or "neobank" models to enter alongside incumbents, intensifying rivalry through fee structures, onboarding friction, and digitally mediated cross-selling. Research syntheses on fintech and digital banking emphasize that the competitive impact is rarely linear: technology can both erode incumbents' informational advantages and, at the same time, strengthen scale-based advantages when platforms, data, and network effects concentrate demand (Agarwal & Zhang, 2020; Acosta-Prado et al., 2024).

Indonesia offers a particularly policy-relevant setting because digital bank entry unfolds within a bank-dominated financial system while digital payments and API-enabled interconnection expand rapidly. Peer-reviewed legal scholarship highlights how Indonesia's digital bank concept is anchored in evolving regulatory interpretation and licensing expectations, with governance and data protection emerging as central boundary conditions for market conduct (Assari, 2022). Complementing this, open banking analysis argues that interoperable API standards can reduce barriers to entry and foster more contestable retail markets by enabling collaboration between banks and fintechs, while also raising strategic questions around coordination, standard setting, and consumer consent (Sugarda & Wicaksono, 2023). Together, these institutional features imply that "entry" in

Indonesia is not only the appearance of new firms, but also a reconfiguration of competitive rules around access, interoperability, and trust.

From an industrial organization perspective, digital bank entry can reshape competitive dynamics through at least three channels. First, it can increase competitive pressure by offering low-friction onboarding and differentiated user experiences that reduce effective switching costs, forcing incumbents to respond with product redesign and margin compression (He et al., 2023). Second, digital finance can generate a "catfish effect", stimulating competitive behavior among traditional banks via deposit reallocation, lending substitution, and hybrid cooperation mechanisms (Gao & Wang, 2023). Third, intensified rivalry can interact with market power and profitability in nuanced ways: Indonesian evidence links competition conditions to profitability patterns and strategic consolidation, suggesting that digitalization may simultaneously encourage efficiency-seeking mergers and heighten day-to-day competitive intensity (Santoso et al., 2023).

Despite growing empirical work, the literature remains fragmented across technology adoption studies, competition and market power measurement, and legal-institutional analyses. For example, customer-level research on Indonesia's digital banking adoption highlights the role of social influence and perceived control in shaping usage, indicating that competitive outcomes will partly depend on behavioral adoption pathways rather than pricing alone (Basoeki & Agus, 2023). Meanwhile, industry-level studies show that fintech expansion can measurably alter bank competition indicators, reinforcing the need to connect entry dynamics with structural competition outcomes (Dilla et al., 2024). What is still needed is an integrative account that maps how digital bank entry translates into competitive conduct in Indonesia's retail banking market, and under what conditions it expands credit intermediation versus reallocating rents within the sector.

Accordingly, this article employs a systematic literature review to consolidate peer-reviewed evidence on digital bank entry and competitive dynamics with a specific focus on Indonesia's retail banking market. By organizing findings around entry mechanisms, rivalry channels (switching costs, platform effects, interoperability), and observable outcomes (market power, profitability, and competitive intensity), the review develops a structured explanation of how digital banks reshape competition and identifies implications for researchers and policymakers concerned with retail banking contestability and credit market development.

2. Literature Review

2.1. How Digital Bank Entry is Defined and Operationalized

The literature treats "digital bank entry" in three main ways. First, entry is defined as the launch of digital-only banks or neobanks that compete with incumbents using app-first distribution, streamlined onboarding, and lower operating costs, positioning technology-enabled efficiency as a core competitive lever (Shanti et al., 2024). Second, entry is operationalized as incumbent-led digital subsidiaries or digitally transformed banks, where the relevant competitive shock is not a new license per se but a strategic reconfiguration that changes how banks acquire customers and monetize retail relationships (Nguyen et al., 2023). Third, several studies broaden entry beyond banks to include fintech intermediation that reshapes retail financial services contestability, because fintech lending and embedded finance can substitute for traditional bank products and alter rivalry even without "bank" entry in the narrow sense (Dilla et al., 2024). For Indonesia, legal scholarship further emphasizes that the meaning of a "digital bank" is shaped by supervisory interpretation and licensing expectations, implying that entry should be interpreted as both market participation and compliance with evolving governance standards (Assari, 2022).

2.2. Mechanisms Linking Entry to Rivalry, Market Power, and Pricing Conduct

Research links digital bank entry to competitive dynamics through switching costs, platform effects, and cost structures. Digital onboarding, interoperability, and improved user experience can reduce customer frictions and intensify rivalry by making churn easier, while network externalities and ecosystem "stickiness" can offset this by rebuilding market power around scale and data advantages (He et al., 2023). In parallel, efficiency and revenue-model shifts matter: when digitalization lowers unit costs or expands fee-based services, banks may sustain profitability even as competitive intensity rises, complicating simple assumptions that more entry always reduces margins (Nguyen et al., 2023). Evidence from Indonesia-facing banking competition research suggests that technology-driven financial intermediation is associated with changes in measured competition, supporting the view that digital entry (including fintech expansion) can pressure pricing power in parts of the market (Dilla et al., 2024). However, market power may remain persistent in segments where structural advantages (capital strength, diversification, or efficiency differentials) allow banks to maintain pricing discretion, indicating heterogeneous competitive effects across institutions (Das & Pati, 2024).

2.3 Indonesia's Institutional and Regulatory Conditions Shaping Outcomes

Indonesia's competitive dynamics are strongly conditioned by regulatory architecture, particularly rules and norms shaping data access, consumer consent, and interoperability. Open banking analysis argues that API-enabled access can increase contestability by enabling new entrants and partners to build services on top of existing banking infrastructure, but it can also concentrate power if standards, governance, or bargaining leverage favor incumbents or dominant platforms (Sugarda & Wicaksono, 2023). Complementing this, legal analysis of Indonesia's digital bank status stresses that compliance requirements and governance expectations define boundaries of permissible competition, affecting how quickly entrants can scale and what risk controls become non-negotiable for market participation (Assari, 2022). Finally, Indonesia's demand-side adoption dynamics also mediate competitive effects: evidence suggests that social influence and perceived behavioral control shape digital banking adoption, meaning rivalry outcomes depend on diffusion patterns and trust formation, not only on price and product offerings (Basoeki & Agus, 2023). Taken together, these studies imply that digital bank entry in Indonesia should be analyzed as an interaction between firm strategy, platform economics, and regulatory-institutional design.

3. Methods

This study applies a systematic literature review (SLR) to synthesize peer-reviewed evidence on digital bank entry and competitive dynamics in Indonesia's retail banking market. The review protocol was designed to ensure transparency and replicability by predefining the research scope, search logic, screening steps, and evidence-extraction template. The guiding questions focus on (1) how digital bank entry is defined and operationalized in the literature, (2) what mechanisms link entry to changes in rivalry, market power, and pricing conduct, and (3) what Indonesia-specific institutional or regulatory conditions shape these relationships.

The search strategy targeted academic databases commonly used for finance and information-systems research (for example, Scopus, Web of Science, and Google Scholar). Keyword strings combined terms related to digital banks and neobanks ("digital bank", "neobank", "digital-only bank"), competition outcomes ("bank competition", "market power", "Lerner", "pricing", "switching cost"), and context filters ("Indonesia", "emerging market", "ASEAN") to capture both Indonesia-specific work and closely relevant comparative studies. After deduplication, titles and abstracts were screened against inclusion criteria: peer-reviewed journal articles written in English or Indonesian; direct relevance to digital bank entry, competitive dynamics, or closely connected mechanisms (open banking, switching costs, platform competition); and empirical or theory-driven contributions with clearly reported methods. Exclusion criteria removed non-peer-reviewed items and studies where "digital banking" referred only to basic e-channel usage without implications for competitive conduct or market structure.

For analysis, eligible articles were coded using a structured extraction form covering: study context and data (country, sample, period), conceptual framing (industrial organization, platform/network effects, regulatory-institutional lens), operational definition of entry (digital-only banks, incumbent digital subsidiaries, fintech-led intermediation), competition measures (e.g., Lerner-type indicators, concentration proxies, pricing outcomes), and key findings. Evidence was synthesized narratively and structured directly around the three guiding questions by mapping (a) entry definitions, (b) competition mechanisms, and (c) institutional conditions, while noting where results diverged due to measurement choices, data scope, or retail segment focus.

4. Results and Discussion

Across the reviewed studies, the notion of "digital bank entry" is treated less as a single licensing event and more as a set of competitive shocks that materialize through digital-only banks, incumbent-led digital subsidiaries, and fintech-led intermediation that substitutes for specific retail products. This definitional variation is consequential for interpretation: studies that proxy entry through fintech activity or digital intermediation tend to report clearer shifts in measured competition, while work centered on bank-level transformation emphasizes heterogeneity in outcomes depending on operating-model redesign and revenue restructuring (Nguyen et al., 2023; Dilla et al., 2024; Shanti et al., 2024). As a result, the evidence base supports a view that competitive dynamics are shaped not only by "who enters", but by how entry changes distribution, customer acquisition costs, and the allocation of informational advantage in retail relationships.

A consistent synthesis outcome is that digitalization tends to intensify contestability in segments where onboarding is frictionless and price comparison is easier, but it does not automatically dissolve market power. Mechanism-oriented studies highlight that switching costs and network externalities jointly determine competitive conduct: lower frictions increase rivalry, while platform-like dynamics can reintroduce lock-in through data advantages, ecosystem bundling, and scale economies (He et al., 2023). This mechanism is reinforced by evidence from credit markets showing that informational switching costs can sustain pricing power even when competitive pressure rises, enabling strategies that compete aggressively for acquisition but generate rents once customer relationships deepen and data asymmetries widen (Ornelas et al., 2022). Taken together, these findings imply that digital bank entry can produce non-uniform pricing patterns, with intense rivalry for digitally active, new-to-bank consumers alongside persistent rents in relationship-heavy segments.

Indonesia-focused banking competition studies generally align with this dual outcome. Research connecting fintech expansion to banking competition in Indonesia suggests that technology-driven intermediation is associated with stronger competitive pressure, consistent with reduced pricing power at least for parts of the market and for institutions more exposed to digital substitution (Dilla et al., 2024). At the same time, evidence on listed Indonesian banks indicates that market power can remain meaningful and is related to structural and capability factors such as capitalization, diversification, and efficiency, which may allow some banks to maintain pricing discretion even as rivalry increases around them (Das & Pati, 2024). This combination supports an interpretation that digital entry is more likely to reorganize competition into contested and less contested "pockets" rather than creating uniform, system-wide price competition.

The reviewed literature also emphasizes that Indonesia's institutional architecture functions as part of the competitive mechanism rather than merely the context. Legal analysis stresses that what counts as a "digital bank" depends on evolving supervisory and governance expectations, which shape entry feasibility, scaling speed, and permissible risk-taking (Assari, 2022). Open banking scholarship similarly frames API-enabled interoperability as potentially pro-competitive by enabling data access and service integration, yet the actual outcome depends on consent governance, standard-setting, and the bargaining balance between incumbents, entrants, and dominant ecosystems (Sugarda & Wicaksono, 2023). This suggests that the competitive trajectory hinges on whether interoperability enables multi-homing and switching in practice, or instead reinforces concentration by allowing a few players to orchestrate ecosystems.

Finally, demand-side adoption mediates the competitive impact of entry. Indonesia-specific adoption evidence indicates that social influence and perceived behavioral control shape digital banking uptake, implying that rivalry outcomes depend on diffusion pathways and trust formation, not simply the availability of digital offerings (Basoeki & Agus, 2023). Broader evidence on ICT-enabled financial inclusion suggests that the benefits of digital disruption can be uneven, accruing faster to digitally connected and capable users while leaving groups with lower access and skills less exposed to competitive and inclusion gains (Mushtaq & Bruneau, 2019). In synthesis, digital bank entry in Indonesia is likely to expand choice and intensify rivalry in digitally served segments, yet preserve market power where relationship-based informational advantages and behavioral inertia remain.

Overall, the evidence implies that digital bank entry is most likely to intensify rivalry in acquisition-heavy retail segments, preserve pockets of market power through informational switching costs and ecosystem lock-in, and shift the basis of competition toward analytics, underwriting, and platform partnerships rather than price alone (Ornelas et al., 2022; He et al., 2023). For Indonesia, this also means that "more entry" does not guarantee broad-based price competition unless interoperability and consent governance concretely reduce switching frictions and make multi-homing viable at scale (Assari, 2022; Sugarda & Wicaksono, 2023). A key research implication is the need for Indonesia-specific designs that separate the effects of fintech-led substitution from bank licensing and ownership changes, and that examine segment-level outcomes (mass retail vs affluent vs MSME) to identify where competition truly intensifies and where it remains structurally muted.

5. Conclusion

Digital bank entry in Indonesia's retail banking market is best understood as a multi-channel competitive shock rather than a single licensing event. The reviewed literature indicates that entry occurs through digital-only banks, incumbent digital subsidiaries, and fintech-led substitution that reshapes specific product markets.

Across these pathways, competitive dynamics shift toward faster customer acquisition, data-driven personalization, and ecosystem-based distribution, which can heighten contestability for digitally active segments while leaving relationship-heavy segments less exposed to direct rivalry.

The synthesis also shows that competition outcomes are structurally uneven. Reduced onboarding frictions and digital comparability can intensify rivalry, but switching inertia, informational advantages, and platform lock-in can preserve pockets of market power. This implies that "more entry" does not automatically translate into broad-based price competition. Instead, the intensity and incidence of competition depend on where switching costs truly fall, how network effects consolidate demand, and how far banks and entrants can scale beyond niche segments into mass retail intermediation.

From a policy and industry perspective, the most decisive levers sit in the institutional design of interoperability, consent governance, and data portability, because these factors shape whether customers can multi-home and switch in practice. For researchers, the main next step is stronger Indonesia-specific identification of entry shocks that separates fintech substitution effects from digital bank licensing and ownership changes, alongside segment-level analysis that distinguishes outcomes across deposits, consumer lending, payments, and MSME-linked retail channels. This agenda would clarify when digital entry expands consumer welfare and credit access versus when it primarily reallocates rents within a more platform-oriented banking landscape.

Further research should prioritize designs that cleanly identify entry effects and capture heterogeneity across products and customers. Promising projects include quasi-experimental studies using staggered digital bank licensing or acquisitions, segment-level competition analysis across deposits, payments, and retail credit, and micro-level switching research that measures how interoperability and data portability translate into actual multi-homing and price dispersion. Ecosystem mapping of bank-fintech-platform partnerships would also clarify when network effects enhance contestability versus concentrate market power, especially for groups that remain reliant on branch-based services.

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