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The Effect of Digital Banking Adoption and Fintech Competition on The Profitability of Conventional Commercial Banks in Indonesia

Indah Berutu[1*], Tuti Meutia[2], Agustina Nurul Fajriah[3]
[1]Accounting Department, Faculty of Economics, Universitas Samudra, Indonesia

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ABSTRACT

This study aims to examine the effect of digital banking adoption and fintech competition on the profitability of conventional commercial banks in Indonesia. The rapid growth of financial technology has prompted banks to accelerate their digital transformation amid increasing competitive pressure from fintech firms. This study uses a quantitative method with an associative-causal approach. The data used is secondary data from the financial statements of banks listed on the Indonesia Stock Exchange for the 2019–2024 period. The sample comprises 8 banking companies selected through purposive sampling based on predetermined criteria aligned with the study's objectives. Data analysis was carried out using multiple linear regression. The results show that the adoption of digital banking had a positive effect on profitability (p=0.019), while fintech competition had a significant negative effect (p=0.017). Simultaneously, the two variables had a significant effect on bank profitability, with a value of 0.013. This study shows that increasing digitalization can improve banks' financial performance, but competition from fintech is a challenge that the banking industry needs to anticipate.

1. INTRODUCTION

The development of information technology in the era of the Industrial Revolution 4.0 has driven significant transformation in the financial services sector, especially banking. The digitalization of financial services such as digital banking and financial technology (fintech) is an important part of changing the global industrial structure. World Economic Forum (2023) reported that the adoption of digital technology in the financial sector has increased significantly, especially in developed countries, in line with the increasing need for fast, efficient, and technology-based services. In the Southeast Asian region, Indonesia is one of the countries with the most dynamic development of the digital. E-Conomy SEA report (Google et al., 2023) shows that Indonesia has great potential in the development of digital financial services, supported by increasing internet penetration and mobile device usage.

Corresponding Author.
*Email: *indahberutu4@gmail.com*

Based on data from the Indonesian Internet Service Providers Association (APJII, 2024), the national internet penetration rate reached 79.5%, which indicates the wider public access to digital-based services, including banking services.This digital transformation requires conventional commercial banks to adjust their business models from conventional to digital. Changes in consumer behavior that increasingly rely on digital technology and information media have also encouraged banks to develop services that are faster, more accessible, and customer-oriented. Bank Indonesia data (2025) shows that digital banking transactions reached Rp1,775 trillion with a growth of 38.08% (yoy), reflecting a significant increase in the use of digital banking services. In addition to improving operational efficiency, digitalization also has the potential to expand fee-based revenue sources and increase banks' competitiveness.However, this development is inseparable from the increasing competition with financial technology (fintech) companies. Fintech is present as a disruptive innovation that offers simpler, faster, and more flexible financial services such as digital payments, peer-to-peer (P2P) lending, and application-based investment.

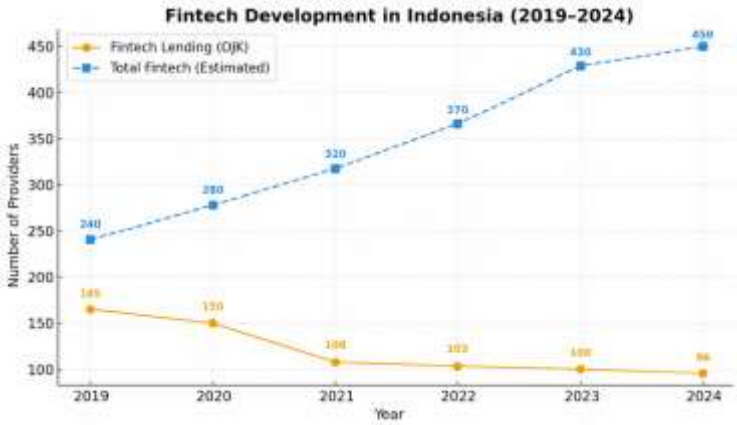

Figure 1. Graph of *Fintech Development* in Indonesia 2019-2024

Based on the graph above, there are two different trends between the number of fintech lending (P2P lending) and overall fintech. More than 400 fintech providers are registered with the Financial Services Authority (OJK), with the number of active users reaching more than 100 million people.Although the number of fintech lending providers has decreased due to stricter regulations, the volume of fund disbursement actually shows an increasing trend. This indicates the consolidation of the industry which leads to better efficiency and stability. On the other hand, this development poses competitive pressure on conventional banks, especially in the credit and payment services segment which was previously dominated by banking (Jasman & Susanto, 2025).This competition has implications for the profitability performance of conventional commercial banks. Profitability measured through Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM) shows fluctuations in recent years. BRI recorded the highest ROA in 2023 (3.93%) but fell to 3.76% in 2024, ROE to 22.94% in 2023 but stable at 22.91% in 2024, and NIM to 6.47% in 2024, reflecting good asset management but fintech competition pressures that suppressed interest income through services such as digital payments. Mandiri showed a significant increase with a ROA of 4.03% and an ROE of 27.31% in 2023, but both fell to 3.59% and 24.49% in 2024, with NIM declining to 4.93%, signaling pressure from fintechs such as P2P lending that offer more competitive interest rates. BNI, although its recovery was more moderate with a ROA of 2.70% and an ROE of 14.20% in 2024, also saw a decline in NIM to 4.20%, indicating the risk of long-term interest margin erosion.

The research is in line with the findings Saputra et al. (2023) which shows that the increase in credit disbursement by fintech is inversely proportional to the decline in NIM and

ROA of conventional banks in Indonesia. This indicates a shift in the financial intermediation function that was previously dominated by banks towards technology-based digital platforms.

Research Atasyadila (2022) shows that digital banking has a positive effect on ROA and operational efficiency (BOPO), but lowers NIM so that it reflects a decrease in intermediation costs. Meanwhile, Yulastri & Negara (2024) shows that mobile banking has a positive effect on ROA and NIM, while internet banking does not have a significant influence on profitability. However, studies that simultaneously examine the influence of digital banking adoption and fintech competition on bank profitability are still limited. Most of the research focuses only on one variable, so it does not provide a comprehensive picture of the dynamics of competition in the digital banking sector. Based on these conditions, there is a research gap that shows the need for further studies on how digital banking adoption and fintech competition together affect the profitability of conventional commercial banks in Indonesia.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Innovation Diffusion Theory & Disruptive Innovation Theory

This study uses the Diffusion of Innovation Theory proposed by Rogers (2003). This theory explains that the process of adopting innovation in an organization or social system is influenced by the characteristics of innovation, communication channels, time, and social structure. In the context of banking, digital banking is an innovation adopted to improve operational efficiency, service quality, and competitiveness of banks (Rahmawati et al., 2023). In addition, this study also uses the Disruptive Innovation Theory introduced by Christensen (1997). This theory explains that technology-based innovation can disrupt established market structures by offering simpler, cheaper, and more accessible services. In the financial industry, fintech is a form of disruptive innovation that challenges the traditional role of banks in payment and financing services (Mhlongo et al., 2025; Gomber et al., 2018).

The Effect of Digital Banking Adoption on Profitability

Digital banking is a form of transformation of technology-based banking services, such as mobile banking, internet banking, and other digital transaction systems. According to the Financial Services Authority (2018), digital banking aims to improve transaction efficiency and provide easy access to financial services for customers.

Based on the theory of innovation diffusion proposed by Rogers (2003), the higher the level of adoption of digital technology by banks and customers, the greater the benefits obtained, especially in the form of cost efficiency and increased commission-based income. This is because innovations that have relative advantages and ease of use will be adopted faster. Previous research has shown that digital banking has a positive influence on banks' financial performance. Atasyadila & Muchlis (2024) found that digital banking has a positive and significant effect on Return on Assets (ROA), although it can reduce Net Interest Margin (NIM). Thus, it can be concluded that the adoption of digital banking has the potential to increase bank profitability through operational efficiency and service optimization.

H1: The adoption of digital banking affects the profitability of conventional commercial banks in Indonesia.

The Effect of Fintech Competition on Profitability

Financial Technology (fintech) is a technology-based financial service innovation that includes digital payments, online lending (P2P lending), and digital investment services. According to Bank Indonesia (PBI No. 19/12/PBI/2017), fintech is the use of technology in the financial system that creates new products and services that can affect the stability and efficiency of the financial system. Based on the Disruptive Innovation Theory, fintech is present as an innovation that disrupts the structure of the conventional banking industry because it offers faster, cheaper, and more flexible services Christensen (1997). The presence of fintech has caused some of the bank's intermediation functions to begin to be replaced, especially in credit services and digital payments (Stulz, 2019). Research by Phan et al. (2020) shows that fintech has a negative effect on bank profitability due to increased competition and declining interest margins. Similar results were also found by Buchak et al. (2018) which states that the growth of fintech increases competitive pressure on traditional banks and lowers profit margins. Thus, the higher the fintech competition, the greater the pressure on bank profitability if it is not balanced with a digital adaptation strategy.

H2: Fintech competition affects the profitability of conventional commercial banks in Indonesia

The Simultaneous Effect of Digital Banking and Fintech Adoption on Profitability

In the digital era, bank profitability is not only influenced by internal innovations such as digital banking, but also by external pressures in the form of fintech competition. These two factors have an interrelated relationship in determining the bank's financial performance.

Research Putri et al. (2024) shows that digital banking is able to increase the efficiency and profitability of banks. Meanwhile, Phan et al. (2020) and Buchak et al. (2018) found that fintech can reduce banks' profit margins due to increased competition. However, this impact can be minimized if banks are able to carry out digital transformation optimally. Thus, the combination of digital banking adoption and fintech competition simultaneously will determine the level of profitability of banks.

H3: Digital banking adoption and fintech competition simultaneously affect the profitability of conventional commercial banks in Indonesia

3. RESEARCH METHOD

This study uses secondary data with an associative-causal research quantitative approach that aims to determine the influence between two or more variables where there are independent (influencing) and dependent (influencing) variables Sugiyono (2018). The research population includes 47 banks listed on the IDX, with sample determination using purposive sampling techniques, based on the criteria that the registered banks have complete financial statements, adopt digital banking services and publish complete digital transaction data during the set period. Based on these criteria, there are 8 companies with the period 2019-2024, so there are 48 research samples. The data used in this study was obtained from official websites such as the Indonesia Stock Exchange (IDX), the Financial Services Authority (OJK) and various other sources relevant to the problems studied. The research consists of a dependent variable, namely profitability (ROA), an independent variable, namely digital banking adoption, which is measured through the intensity of digital banking transactions (transformed in the form of a natural logarithm) (Putri et al., 2024), as well as fintech competition as measured through the volume of peer-to-peer (P2P) lending lending (Saputra et al., 2023). The data collection technique used is documentation, the data analysis

technique used is multiple linear regression analysis with time series data, which is to test the influence of independent variables on dependent variables in a certain time span.

4. RESULTS

Descriptive Statistical Analysis

Table 1 Descriptive Statistical Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Adoption of Digital Banking	48	15,3099	24,4246	20,734878	2,7186889
Fintech Competition	48	31,7057	33,1256	32,511023	,6002933
Profitability	48	,0044	,0310	,017273	,0086977
Valid N (listwise)	48				

Source: SPSS Output

Based on table 1 above, it is known that the digital banking adoption variable has a minimum value of 15.3099 and a maximum of 24.4246 with a mean of 20.734878 and a standard deviation of 2.7186889. The Fintech Competition variable has a minimum value of 31.7057 and a maximum of 33.1256 with an average of 32.511023 and a standard deviation of 0.6002933. The Profitability variable has a minimum value of 0.0044 and a maximum of 0.0310 with an average of 0.017273 and a standard deviation of 0.0086977.

Classic Assumption Test
Normality Test

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		48
Normal Parameters[a,b]	Red	,0000000
Most Extreme Differences	Std. Deviation	,00790250
	Absolute	,103
	Positive	,103
	Negative	-,084
Test Statistic		,103
Asymp. Sig.(2-tailed)[c]		,200d

Source: SPSS Output

Based on the results of the normality test using the One-Sample Kolmogorov-Smirnov Test, an Asymp value was obtained. Sig. (2-tailed) of 0.200 which is greater than 0.05. This shows that the residual data is normally distributed, so the assumption of normality in the regression model has been met.

Multicollinearity Test

Table 3. Multicollinearity Test Results

Coefficient							
	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Models	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1 (Constant)	,159	,064		2,477	,017		
Adoption of Digital Banking	,001	,000	,341	2,426	,019	,927	1,078
Fintech Competition	-,005	,002	-,350	-2,488	,017	,927	1,078
a. Dependent Variable: Y							

Source: Spss Output

Based on the results of the multicollinearity test in the Coefficients table, it is known that the Tolerance value for the variables X1 and X2 is 0.927 which is greater than 0.10, and the VIF value is 1.078 which is less than 10. This shows that there is no high correlation between independent variables. Thus, it can be concluded that the regression model does not experience multicollinearity problems and has met classical assumptions, making it suitable for further analysis.

Autocorrelation Test

Table 4. Autocorrelation Test Results

Model Summaryb					
Models	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.418a	,175	,138	,0080762	1,282

a. Predictors: (Constant), X2, X1
b. Dependent Variable: Y

Source: SPSS Output

Based on the results in the Model Summary table, the Durbin-Watson value of 1.282 is below the lower limit value (dU) so that it can indicatively lead to the suspicion of positive autocorrelation in the regression model. However, to obtain stronger certainty, additional tests were carried out using the Run Test.

Table 5. Test Runs Test Results

Runs Test	
	Unstandardized Residual
Test Valuea	-,00027
Cases < Test Value	24
Cases >= Test Value	24
Total Cases	48
Number of Runs	20
Z	-1,313

Asymp. Sig. (2-tailed)	,189
a. Median	

Source: SPSS Output

Based on the results of the Runs Test, an Asymp. Sig. (2-tailed) value was 0.189, which is greater than 0.05. This shows that the residual data is random and there is no specific pattern. In addition, the Z-value of -1.313 also indicates that the data spread is within normal limits. Thus, based on the results of the Durbin-Watson test supported by the Run Test, it can be concluded that the regression model does not experience autocorrelation problems, thus meeting classical assumptions and is suitable for further analysis.

Heteroscedasticity Test

Table 6. Heteroscedasticity Test Results

Coefficient						
		Unstandardized Coefficients		Standardized Coefficients		
Models		B	Std. Error	Beta	t	Sig.
1	(Constant)	,054	,032		1,714	,093
	Adoption of Digital Banking	,000	,000	-,072	-,481	,633
	Fintech Competition	-,001	,001	-,209	-1,390	,171
a. Dependent Variable: Profitability						

Source:SPSS Output

Based on the results of the heteroscedasticity test using the Glejser test, it is known that the significance value of the digital banking adoption variable is 0.633 and fintech competition is 0.171, both of which are greater than 0.05. This shows that there are no symptoms of heteroscedasticity in the regression model. Thus, it can be concluded that the regression model meets classical assumptions, especially does not experience heteroscedasticity, so it is suitable for further analysis.

Multiple Linear Regression Analysis Results

Table 7. Results of Multiple Linear Regression Analysis Test

Coefficient								
		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Models		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	,159	,064		2,477	,017		
	Adoption of Digital Banking	,001	,000	,341	2,426	,019	,927	1,078
	Fintech Competition	-,005	,002	-,350	-2,488	,017	,927	1,078
a. Dependent Variable: Y								

Source: SPSS Output

Based on the output of the Coefficients table, the multiple linear regression equation formed is as follows:

$$Y = 0.159 + 0.001X_1 - 0.005X_2 + e$$

Description :

Y = Profitability
α = *Constant*
β1 = Regression coefficient X1
β2 = Regression coefficient X2
X1 = Adoption *Digital Banking*
X2 = Competition *Fintech*
ε = Error

Partial Test (T Test)

Table 8. Partial Test Results (T Test)

Coefficient							
	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Models	B	Std. Error	Beta	t	Sig.	Tolerance	VIVID
1 (Constant)	,159	,064		2,477	,017		
Adoption of Digital Banking	,001	,000	,341	2,426	,019	,927	1,078
Fintech Competition	-,005	,002	-,350	-2,488	,017	,927	1,078
a. Dependent Variable: Y							

Source: SPSS Output

Based on the test results shown in the table above, it can be explained that each independent variable has an influence on the dependent variable with a different level of significance, namely:

1. The adoption of digital banking shows a t-count value of 2.426 and a significance of 0.019, the significance value is less than 0.05 so that it can be concluded that the adoption of digital banking has a positive and significant effect on profitability, so the hypothesis (H_1) is accepted.
2. Fintech competition showed a t-count value of -2.488 and a significance of 0.017. This value is less than 0.05 so that it can be concluded that fintech competition has a negative and significant effect on profitability, then the hypothesis (H2) is accepted.

Simultaneous Test (F Test)

Table 9. Simultaneous Results (F Test)

NEW ERA						
Models		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,001	2	,000	4,756	,013b
	Residual	,003	45	,000		
	Total	,004	47			
a. Dependent Variable: Y						
b. Predictors: (Constant), X2, X1						

Source: SPSS Output

Based on the results of the ANOVA test in the table above, an F value of 4.756 was obtained with a significance value of 0.013 smaller than 0.05, so it can be concluded that

independent variables (digital banking adoption and fintech competition) simultaneously have a significant effect on the profitability variable. Thus, the regression model used in this study is declared feasible to be used in further analysis.

Determinant Coefficient Test (R2)

Table 10. Results of the Determinant Coefficient Test (R2)

Model Summaryb					
Models	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.418a	,175	,138	,0080762	1,282
a. Predictors: (Constant), X2, X1					
b. Dependent Variable: Y					

Source: SPSS 27 Output

Based on the results, the Adjusted R Square value of 0.138 shows that the variables of digital banking adoption and fintech competition together are able to explain 13.8% of the variation in the Y variable. Meanwhile, the remaining 86.2% is influenced by other factors outside the unstudied research model. Thus, the regression model has limited explanatory ability to profitability.

DISCUSSION

The Effect of Digital Banking Adoption on Profitability

Based on the results of the research that has been carried out, the first hypothesis in this study is accepted. The variable of digital banking adoption is proven to have a positive and significant influence on the profitability of banking companies. This is shown through the results of a partial test that shows a significance value of 0.019 that is smaller than 0.05 so that it can be implied that the increase in digital banking adoption is able to encourage increased profitability.

These findings indicate that the higher the level of implementation and utilization of digital banking services, the greater the potential for increased profitability obtained by banks. This condition can be explained through operational efficiencies resulting from service digitization, such as reducing transaction costs, accelerating services, and increasing customer reach without the need for physical branch expansion. Thus, the adoption of digital banking is not only a technological innovation, but also a strategic instrument in increasing profitability.

In the perspective of innovation diffusion theory, it is explained that the adoption of new technologies can provide a competitive advantage for organizations that are able to implement them effectively. In the context of banking, the higher the adoption rate of digital banking, the greater the bank's opportunities to improve service quality and maintain customer loyalty, which ultimately contributes to increased profitability.

In line with research conducted by Atasyadila (2022), Dwi Pratiwi (2024) which states that digital banking has a positive and significant effect on Return on Assets (ROA) as a profitability proxy. The findings show that the increased use of digital services, such as mobile banking and online transactions, is not only able to increase the volume of banking transactions which has an impact on increasing bank revenue, but also encourages operational efficiency through the integration of digital services. This efficiency allows banks to reduce operational costs while expanding access to services to customers, thus overall contributing directly to increasing the bank's profitability and financial growth.

The Effect of *Fintech* Competition on Profitability

Based on the results of the research that has been conducted, the second hypothesis in this study is accepted. The fintech competition variable is proven to have a negative and significant influence on the profitability of banking companies. This is shown through the results of a partial test that shows a significance value of 0.017 smaller than 0.05, so it can be concluded that the higher the level of fintech competition, the lower the bank's profitability level.

These findings indicate that the increasing presence and development of *fintech* provides strong competitive pressure on the banking industry. *Fintech* offers more practical, fast, and low-cost financial services, thus being able to attract customers to switch from conventional banking services. This condition has an impact on the decline in bank revenue, both in terms of interest margin and *fee-based income*, due to a reduction in transaction volumes that were previously controlled by banks.

This decline in profitability can be explained through the mechanism of forming bank profits. In terms of interest income, the existence of fintech, especially in digital financing services, reduces the demand for credit in banks because people have faster and more flexible financing alternatives. This has an impact on declining credit disbursement which has implications for a decrease in interest income. Meanwhile, in terms of fee-based income, fintech has also taken over various transaction services such as digital payments, fund transfers, and electronic wallets, so that the frequency of transactions at banks decreases and results in a reduction in commission-based income. This condition ultimately reduces the bank's ability to generate profits, resulting in a decrease in profitability.

From the perspective of disruptive innovation theory, fintech is a form of innovation that is able to shift traditional business models through a more efficient and technology-based approach. This innovation not only creates an alternative to financial services, but also disrupts the market that has long been dominated by banks. As a result, banks face great challenges in maintaining their market share and financial performance. If they are unable to adapt quickly, then the bank's profitability tends to decline.

The results of this study are in line with the research conducted by Saputra et al. (2023) which states that fintech competition has a negative effect on bank profitability, especially in the short term. This is due to increased competition in core services such as digital payments, online loans, and fund transfers.

The Effect of Digital Banking Adoption and Fintech Competition on Profitability

Based on the results of the research that has been conducted, the third hypothesis in this study is accepted. Simultaneously, the variables of digital banking adoption and fintech competition are proven to have a significant influence on the profitability of banking companies. This is shown through the results of a simultaneous test (F test) which shows a significance value of 0.013 that is smaller than 0.05, so it can be concluded that the two variables together affect the level of bank profitability.

These findings indicate that banks' profitability is not only influenced by internal factors in the form of the ability to adopt digital technology, but also by external factors in the form of competitive pressure from fintech. The adoption of digital banking has been proven to make a positive contribution through increasing operational efficiency, expanding access to services, and improving the quality of services to customers. On the other hand, fintech competition exerts negative pressure on profitability due to shifts in customer preferences and reduced market share in some financial services.

From the perspective of disruptive innovation theory, these two variables reflect two sides of the dynamics of digital transformation in the financial sector. On the one hand, the adoption of digital banking is a form of innovation carried out by banks to maintain

competitiveness. On the other hand, fintech is present as a disruptive innovator that is able to shift the position of banks through a more flexible and efficient business model. The interaction between the two determines how banks are able to survive and thrive in an increasingly complex competitive environment.

The results of this study show that although fintech competition tends to suppress profitability, these negative impacts can be minimized if banks are able to optimize the adoption of digital banking effectively. In other words, digitalization is a key strategy in dealing with technological disruption. Banks that successfully integrate digital technology in their operations tend to have better resilience to competitive pressures, so they are still able to maintain and even increase their profitability.

In line with previous research, the results of this study are supported by research Putri et al. (2024) which states that the adoption of digital banking has a positive effect on profitability. On the other hand, research Buchak et al. (2018) shows that fintech competition has a negative effect on the financial performance of banks. Thus, simultaneously these two variables are proven to affect profitability, where digital banking improves financial performance, while fintech provides competitive pressure

5. CONCLUSION

Based on the results of data analysis and hypothesis testing that has been carried out, it can be concluded that the adoption of digital banking has a positive and significant effect on the profitability of conventional commercial banks in Indonesia**.** This shows that the higher the level of digital banking implementation, the more profitability the bank will increase through operational efficiency and increased revenue. Fintech competition has a negative and significant effect on the profitability of conventional commercial banks in Indonesia**.** This indicates that increasing fintech competition leads to a decrease in bank profitability due to shifts in customer behavior and a decrease in financial services market share. The adoption of digital banking and fintech competition simultaneously have a significant effect on the profitability of conventional commercial banks in Indonesia**.** This shows that the bank's financial performance is influenced by a combination of internal factors in the form of digitalization and external factors in the form of fintech competition pressure, where the two jointly determine the bank's profitability level.

Based on the results of the research that has been conducted, the researcher provides several suggestions. Conventional commercial banks are expected to continue to increase the optimization of digital banking adoption as a strategy to increase profitability. This can be done through the development of more innovative digital services, improving the quality of security systems, and improving customer user experience. Banks also need to respond to fintech competition by strengthening service innovation and conducting strategic collaborations with fintech companies in order to maintain competitiveness in the digital financial industry. Fintech companies are expected to develop services that are not only competitive, but also support a healthy financial ecosystem, including through cooperation with banks so as to create synergies in digital financial services. For the next researcher, it is recommended to add other variables that can affect banking profitability, such as credit risk, financial inclusion, operational efficiency, company size, or macroeconomic variables. In addition, research can also use a longer research period or expand the research object not only on conventional commercial banks, but also Islamic banks or other financial institutions so that the research results are more comprehensive.

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