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The development of digital economy in Indonesia

The current number of internet users in Indonesia has exceeded 50% of the total population, with an average expenditure of IDR 6.5 million per annum for online shopping. The value of e-commerce has reached US\$ 87.8 or 52% of the e-commerce market in Southeast Asia. On the one hand, the development of digital lifestyle and digital technology-based industries has become a necessity, but on the other hand, it will become “a serious threat” for traditional and conventional businesses as a result of changes in consumer shopping characteristics, that is, fast, practical, and inexpensive. This research uses primary data and secondary data with the focus on Micro Small and Medium Enterprises (MSMEs) and the behavior of consumers as internet (smartphone) users. The results show that there are still some problems with regulation, collaboration, and infrastructure that need to be addressed so as not to hamper the growth of the digital economy and the stability of the financial system in Indonesia.

Today the world has entered the era of industry 4.0 which is based on new technology and able to change the whole chain and management in every branch of industry, including the financial industry commonly known as financial technology and digital banking. Technology-based financial services appear to be expanding rapidly in Indonesia, marked by the emergence of startup companies, such as payment systems and money transfer services, savings and loans, insurance, financial information service providers, capital market, crowdfunding, and wealth management. This is in line with the behavior of consumers who want services without being physically present to bank offices, insurance offices or finance companies. The availability of digital banking services and products is greatly appreciated by customers, both individuals and business actors, particularly in Micro, Small and Medium Enterprises (MSMEs). Currently, the financial services in digital banking have been well developed, such as internet banking, mobile banking, AMS banking, ATM, e-money, phone-banking, payment gallery, branchless banking, online debit, digital outlet, virtual credit card, cash management system, EDC, mobile branch, mobile account, and smartphone-based financial applications. The large selection of digital banking products is certainly intended to motivate customers to be more loyal and be part of the modern lifestyle.

Singapore, Japan and the UK are the three international financial center countries that have been able to prove the significant impact of financial technology on economic growth and the stability of the financial system. In addition, financial technology is also able to present merchants who accept low-cost debit and credit card payments and to build banking infrastructure in an effort to encourage people's purchasing power. The experiences in these

three countries also show that banking institutions are greatly benefited because they can cut operating costs and raise low-cost funds from customers, including expanding services in time and space. The presence of the digital economy era can be a new opportunity as well as a serious threat to banking industry that turns to digital banking in order to retain existing customers and attract new customers who come from millennial generation. It is important to note that Indonesia's future economic growth requires a strong and stable financial sector to be at 6% per annum. This means that banks, insurance, capital markets and startup companies should be spurred so that the annual credit growth is no longer at the range of 10-12%. It is intended that the capacity of the financial sector can increase fivefold from the current position, as has been achieved by Singapore and Thailand. Nevertheless, the financial services industry is one of the most vulnerable sectors of cyber crime, which is pandemic and growing to cloud computing system-based data storage media. Moreover, the public has not been much educated about the threat of digital crime.

Financial system is basically an order in the Indonesian economy that has a role, particularly in providing financial service facilities which are institutionally divided into two major parts, namely depository financial institution and non-depository financial institution. The financial system desperately needs stability to avoid an economic crisis or monetary crisis. A stable financial system is essentially a financial system capable of allocating financial resources and absorbing shocks in preventing disruptions to real sector activities, and in addition, the financial system remains capable of performing intermediary functions, implementing payments, and spreading risk appropriately. The amount of money in circulation is relatively capable of being controlled by Bank Indonesia through various monetary policy instruments. However, it is in contrast to the demand for money that is entirely in the hands of consumers in terms of various needs, such as food, clothing and shelter. The demand for money, in the classical view, is reflected in the quantity theory of money, and the view of A. Marshall is the beginning of the theory of demand for money. J.M. Keynes (1936) distinguished the demand for cash money into three motives: transaction motive, precautionary motive, and speculative motive. The demand for money has grown in line with the presence of the ideas of William J. Baumol (1952) and James Tobin (1956) where the interest rates and the intermediary costs are very influential on cash demand for transaction purposes.

Meanwhile, according to Bank Indonesia (BI), financial technology is the use of technology in the financial system that produces new products, services, technology and / or business models that can be held by each party under the category: (1) payment system; (2) market supporters; (3) investment management and risk management; (4) loans, financing, and capital provision; and (5) other financial services. Before the Internet, business actors did their activities traditionally, such as by opening outlets or shops, and consumers came to see the goods physically. Consumers bargained to get cheap prices, and on the contrary, the traders made a strategy to gain a lot of profit. The existence of the internet, however, has made trading patterns change, that is, through online business, and consumers simply use the gadget to transact. Online business has a huge impact on people's mindset and behavior because the process is very fast and easy. Similarly, many young people are interested in doing online business because to start a new business does not require a large capital. MSMEs, as one of the spearheads of the Indonesian economy certainly can no longer rely on

conventional ways, and must adjust to the pattern of business in the era of digital economy in order to survive in the increasingly fierce market competition.