

**INCREASING THE CUSTOMER RETENTION RATE WITH DIGITAL BANKING
PERFORMANCE OPTIMIZATION DURING THE COVID-19 PANDEMIC
(STUDY AT BMT AMANAH UMMAH IN KARTASURA, SUKOHARJO)**

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Abstract: *Customer retention is the maintenance of sustainable business relationships with customers over the long term. A high customer retention rate is inversely proportional to customers leaving the company (defection). Entering the industrial era 4.0, where all economic activities began to shift to all digital, financial institutions were required to adapt, including Baitul Maal wat Tamwil (BMT). As a financial institution that has played an important role in the development of the Islamic economy, it has become a necessity for BMT to adapt to this change. The economic slowdown due to Covid-19 has reduced payment activity, but has accelerated the adoption of digital financial technology. The purpose of this study is to provide an overview of the implementation of digital banking by BMT Amanah Ummah as one of the steps in retaining its customers during this covid-19 pandemic. The method used in this study was a qualitative descriptive analysis technique, which seeks to describe the condition of digital banking at BMT during the COVID-19 pandemic where all data generated and presented are in the form of descriptions. The results of this study, BMT seeks to retain customers by optimizing the application of digital banking with BMT Mobile in its operations during this covid-19 pandemic. In line with the widespread use of digital instruments during the pandemic, digital economic and financial transactions continue to grow. In its application there are already various digitization used by BMT. With mobile BMT, BMT members can access data and transaction needs, ranging from checking balances, savings, principal savings, mandatory savings, voluntary savings, checking transaction history, and checking accounts*

Keywords: *Customer retention, Digital banking, Covid 19, BMT Amanah Ummah*

1. Introduction

The Covid-19 pandemic has triggered many changes around the world. Since its appearance in Indonesia in early March, the corona virus has changed people's habits. The PSBB policy issued by the government has limited physical economic activity. This makes many people who want to carry out economic activities that on average depend a lot on financial institutions, being unable to do it smoothly. Health protocol procedures are applied to all financial institutions, making the administrative process by financial institutions take longer. Therefore, financial institutions are currently starting to intensify this business, especially in digital banking which is currently widely used by the public for the purposes of economic activity.

The impact of the Covid-19 pandemic has also been felt in sharia microfinance institutions, namely *Baitul Maal wat Tamwil* (BMT) as a microfinance institution with sharia principles (LMKS) which is a legal entity as a savings and loan cooperative and sharia-based self-help

financing is an institution that provides financial services in the micro region, which serves the lower middle class and improves the basic skills needed by the community to develop their businesses such as resources, education and social networks (Kholis, 2009).

Micro, Small and Medium Enterprises (MSMEs) as the main target of BMT services experienced a huge impact, because they depended on daily liquidity which supported BMT's cash flow (Hawariyuni and Skati, 2020), plus other problems that had an impact on BMT were unintended consequences. From President Joko Widodo's speech when announcing credit relief for people whose economy was affected by the Covid-19 pandemic, Tuesday (24/3) many BMT members who have good cash flow asked to postpone the installment payments.

In order for the sharia microfinance institution sector, namely *Baitul Maal wat Tamwil* (BMT) to continue to carry out its business and exist in the midst of the corona virus pandemic, it should be able to mitigate risks appropriately and carefully, as well as by using various innovative strategies to deal with situations that are currently uncertain. If Islamic microfinance institutions want to rise from adversity, then these Islamic microfinance institutions should not be able to use the old methods in the process of marketing their products and services. One of the ways that Islamic microfinance institutions can do is to use the digital banking services. The Head of the Sharia Microfinance Division of the National Committee for Sharia Economy and Finance (KNEKS) Bagus Aryo also stated that innovation is the standard formula when implementing the new normal during the Covid 19 pandemic. Innovation is digital or online. Activities that occur now cannot be done offline forever. This also applies to *Baitul Maal wat Tamwil* (BMT).

Products and services must be converted to digital. The process must be carried out gradually and continuously. However, there are banking products and services at the Islamic microfinance institutions that cannot use digital banking since there are core activities that still require the ability of the human element whose existence cannot be replaced by the digital banking. One of these roles is activities in customer assistance and consulting activities. In this case, it is when customers whose businesses are affected by the Covid-19 pandemic, these customers will receive business assistance and consultation directly from the marketing personnel (Habibah, 2020).

BMT is a sharia financial institution incorporated as a Sharia Savings and Loans Cooperative and Financing Cooperative. Its main activity is to collect member funds in the form of deposits and distribute them in the form of financing as well as to become a public social *da'wah* institution by collecting zakat, infaq, alms and waqf funds and distributing them to those who are entitled (<http://www.bmt-bif.co.id/>).

In order that customer needs can be met and increase the growth of BMT, therefore BMT strives to improve services through the digital banking products or BMT mobile which in modern times can be used as the main alternative for customers who use the mobile banking services. In the application of digital banking, BMT Islamic financial institutions must have the ability to change the marketing model and management model of the BMT. The challenge experienced by BMT in developing the digital banking is the bad experience that customers have experienced in using the digital banking products. Therefore, in developing a marketing theory of digital banking services, it takes an understanding of customer desires that come from customer satisfaction and

loyalty of Islamic financial institutions (Vebiana, 2018).

Bank digitalization has a goal to achieve the customer satisfaction. Customer satisfaction is a very important thing in the banking industry that operates in the field of products and services. Customers can easily switch to another bank if they do not get what they expect. This fact makes the banking industry to always innovate and be creative in creating an advantage in the midst of intense competition in retaining customers and maintaining their trust so that these customers will become loyal customers and be able to increase profits for the banking business. The advantage in the competition must be observed by the customer as a customer's advantage. Thus, banks must focus their activities on building excellence to customers who can provide the highest value and satisfaction which will lead to the use of repeated services which will ultimately increase the profitability of the bank. In achieving this goal, the main strategy that must be carried out by banks is to measure the level of service quality provided to their customers (Asti Marlina, 2018).

Apart from the various risks that will be faced by the banking sector and Islamic financial institutions such as BMT in the future, especially when the industry is faced with the Covid outbreak, digital banking is a product and service of Islamic financial institutions that must be carried out quickly and responsively. An economic theory that explains the application of technology that leads to an increase in production capacity and motivates efficiency within a company. An efficient and productive company will strive to develop competitive forces and dominate the market. However, at the time of its implementation, of course, every financial institution has its own thoughts regarding the implementation of digital banking. This of course affects the competition from each financial institution in placing the digitalization strategy as a very important innovation. The implementation of the digital banking system at BMT Islamic financial institutions is considered to still have shortcomings compared to the implementation of digital banking in the conventional banking. Banking systems with digital technology can function in the interests of banks as financial intermediary institutions and services outside of their role as financial consultants for their customers (Azizah *et al.*, 2020).

Therefore, this study seeks to provide an overview of the performance optimization of the application of digital banking by the Islamic financial institution BMT as a step in retaining its customers during the COVID-19 pandemic. This study was conducted at the Amanah Ummah BMT in Kartasura, Sukoharjo.

2. Method

The method used in writing this study was a qualitative descriptive analysis technique, which seeks to describe the condition of digital banking at BMT Islamic financial institutions during the covid-19 pandemic where all data generated and presented are in the form of descriptions in the form of images that describe the results of the research. The techniques used in the data collection include the study of journal literature and online and printed articles, and literature related to the material discussed in this study.

3. Result And Discussion

a. *The Conditions of BMT Islamic Financial Institutions During the Covid-19 Pandemic*

Covid-19 or also known as Coronavirus Disease 2019 is an infectious disease that can cause serious lung disease. The first case of Covid-19 was discovered in China in November 2019. Covid-19 is known as an infectious disease caused by the presence of a new virus with a very fast spread time. According to the World Health Organization (WHO), the number of confirmed cases of Covid-19 worldwide is 3,116,398 cases with a death toll of 217,153 people (29 April 2020). Indonesia is one of the countries with the largest number of deaths due to Covid-19 among other ASEAN countries (Sumadi, 2020).

The Central Statistics Agency (BPS) report in August 2020 stated that the economic growth of Indonesia in the second quarter was minus 5.32%, which previously grew by 2.97% in the first quarter, down far from 5.02% growth in the same period in 2019. As projected by the Minister of Finance Sri Mulyani Indrawati, the Indonesian economy in the third quarter will experience a contraction of minus 2.9% to 1.1%, and this indicates that Indonesia will enter the abyss of an economic recession.

This impact is also felt in sharia microfinance institutions, namely Baitul Maal wat Tamwil (BMT) as a microfinance institution with sharia principles (LMKS) which is a legal entity as a savings and loan cooperative and sharia-based self-help financing is an institution that provides financial services in micro areas, which serve the lower middle class and improve the basic skills needed by the community to develop their businesses such as resources, education and social networks (Kholis, 2009).

Micro, Small and Medium Enterprises (MSMEs) as the main target of BMT services experienced a huge impact, since they depended on the daily liquidity which supported the cash flow of BMT (Hawariyuni and Skati, 2020), plus other problems that had an impact on BMT were unintended consequences. From President Joko Widodo's speech when announcing the credit relief for people whose economy was affected by the Covid-19 pandemic, Tuesday (24/3) many BMT members who have good cash flow asked to postpone the installment payments.

Although OJK issued POJK No.11/POJK.03/2020 which regulates credit restructuring, the regulation is intended for banking and leasing, not BMT. (Republika.co.id/impact-covid19), including popping up in various regions with letters from village heads or local officials regarding the prohibition of collecting installments or installments to their residents and accompanied by the closure of several places such as markets. As a result, the repayment rate experienced a sharp decline. In addition, the implementation of physical distancing has an impact on the difficulty of BMT gathering members. In particular, BMTs that apply group financing. Without a group meeting the installments are "off".

From the financial side in general, there has been a withdrawal of savings by members due to the need during the pandemic and increased consumption to maintain body immunity. It is made worse by informal workers, new factories and MSMEs who can no longer carry out their normal activities. Information received; in a month there are BMTs who experience withdrawals of

savings of up to Rp 1 billion. Installment financing began to falter, especially MSMEs.

b. *The Implementation of Digital Banking at BMT During the Covid-19 Period*

In the midst of very rapid technological developments at this time, Islamic banking not only competes with conventional banks, but Islamic banking must also be able to compete with the financial technology companies (Financial Technology/ Fintech). In the banking era 4.0, Islamic banks are required to always innovate and transform in providing services to their customers. Therefore, Islamic banking is required to be more adaptive to digitalization in the technology sector caused by the demands from Islamic banking consumers. Since if Islamic banks do not do this, it is not impossible that Islamic banking will be abandoned by customers who prefer to switch to other Islamic financial institutions such as Islamic fintech. A survey from PWC (2018) shows that there are only 14 percent of Islamic banks that state that the purpose of digitalization is to increase the revenue from Islamic banks. In fact, with the existence of digitalization, it will bring an increase in the income of Islamic banks due to an increase in the efficiency of costs incurred. Today's Islamic banks cannot only rely on physical outlets but also have to reach their customers through digital services such as internet banking and mobile banking (Ministry of National Development Planning/Bappenas, 2020).

Retaining customers or customer retention is a way for Islamic banks in their marketing activities carried out by the company through a planned strategy, and focusing on developing marketing activities, building relationships, customer care and creating customer loyalty that aims to retain customers. Customer retention plays an important role in increasing profits and mutual goals between the two parties, namely the banking sector and its customers (Sigalingging, 2017).

According to the regulation of the Financial Services Authority (OJK) number 12/POJK.03/2018 concerning the Implementation of Digital Banking Services by Commercial Banks, where the definition of digital banking is a service for electronic banking developed in order to maximize the use of customer data in order to serve and provide information to customers more easily, quickly, and in accordance with the needs (customer experience), and can be run completely independently by the customer, taking into account various aspects of security (Financial Services Authority, 2018). The implementation of digital banking in Indonesia is proven by the existence of various services that can facilitate customers, including: First, the existence of Internet Banking. Second, the existence of Phone Banking. Third, there is SMS Banking. Fourth, the existence of Mobile Banking. Banks can cooperate with cellular operators, so that the SIM Card (mobile chip card) Global for Mobile communication (GSM) has installed a special program to be able to carry out banking transactions. The customer transaction process will be easier on mobile banking compared to SMS Banking (OJK RI, n.d.).

The economic slowdown caused by the Covid-19 pandemic has reduced payment activities, but has encouraged the acceleration of digital financial technology adoption. Cash growth contracted in line with the implementation of the PSBB which reduced mobility and the need for cash transactions for the community. Non-cash payment transactions through ATMs, Debit Cards, Credit Cards, and Electronic Money (EU) have contracted, digital banking transactions and payment transaction volumes have slowed. Positive developments can be seen in

the increasing preference and acceptance of the public towards the use of digital financial platforms and instruments, such as e-commerce, to fulfill their daily needs. The implementation of digital banking has had a good impact in the banking world, especially during the Covid-19 pandemic. This can be seen from cash and non-cash payment transactions in the recovery trend in the second semester in line with improving economic activity. In December 2020, UYD again increased by 13.25% (yoy). The value of non-cash payment transactions with ATMs, Debit Cards, and Credit Cards in December again grew positively by 1.36% (yoy) after experiencing contraction in the previous month. Digital economic and financial transactions continue to grow high in line with the increasingly widespread use of e-commerce platforms and digital instruments during the pandemic, as well as the strong preference and acceptance of the public for digital. This can be seen from the value of Electronic Money (EU) transactions in December 2020 which grew by 30.44% (yoy). In addition, digital banking transactions also continue to increase. In December 2020, the volume of digital banking transactions reached 513.7 million transactions, or grew by 41.53% (yoy) with the value of digital transactions reaching Rp2,775.5 trillion, or growing 13.91% (yoy). Meanwhile, nominal e-commerce transactions increased by 19.55% (yoy) in the third quarter, so that overall 2020 grew by 29.6% (yoy) in 2020, supported by increased public preference for the use of digital platforms and promotional strategies of a number of marketplace (Bank Indonesia, 2020). The increase in the use of digital services during the Covid-19 pandemic was due to government regulations related to restrictions on social activities in the community, besides that various companies, including banking, were recommended to reduce their performance at physical outlets so that banks strengthen their bank operations by optimizing digital banking performance which is expected to provide convenience for customers and the wider community.

Optimizing the performance of Islamic banks is carried out because service is not only limited to serving, but must understand, understand, and feel. Thus, delivery in service will be about the customer's heart share. Then, the sense of loyalty from customers will increase towards the product. Thus, it has a positive impact on the company's image. Islamic banks must transform through the use of digital technology more than just providing online and mobile banking services, but banks must always innovate in combining digital technology with customer interaction, where the findings of this technology will provide convenience and comfort for customers in accessing sharia banking services widely anytime and anywhere (Sumadi, 2020).

In response to the banking era 4.0, the Sharia Microfinance Division of the National Committee for Islamic Economy and Finance (KNEKS) developed what is called BMT 4.0. There are four pillars that are implemented by BMT 4.0. First, operational digitization, which means starting from the management of the information system, accounting, savings, and others in the internal BMT already in digital form.

The second is the management support system, this is the context of compliance related to reporting and disclosure. Third, there is the development of member services, for example the existence of the BMT version of the ATM mobile banking. Fourth is business digitization, in this case how to integrate human and system aspects, meaning that there is a supply chain, businesses

build a digital ecosystem. With this, the community can build their ecosystem, such as digital transfers between BMTs.

Digitalization of banking with BMT 4.0 has been adapted by BMT Amanah Ummah in Kartasura, Sukoharjo. The goal is to help customers or members manage their finances, as well as help businesses stay relevant in the challenging financial industry landscape. BMT Amanah Ummah as one of the growing Islamic financial institutions provides the BMT Amanah Ummah Mobile application for its members. This BMT Amanah Ummah mobile application can be a transaction solution without having to leave the house. BMT Amanah Ummah Mobile has features that can be used to transfer money to fellow BMT Amanah Ummah member accounts, payment of electricity, credit, zakat, infaq, alms and others. Of course, all payments and transfers are debited from members' own savings in BMT Amanah Ummah.

In order to increase the use of BMT Amanah Ummah Mobile, BMT Amanah Ummah conducts socialization and campaigns for members so that they can take advantage of the BMT Amanah Ummah Mobile services that have been provided to meet the needs of members' digital transaction services. It is expected that more people using the Amanah Ummah Mobile BMT service will encourage people to stay at home and make shopping transactions from home. And, by itself, together we can prevent the spread of Covid 19 so that it does not spread further.

4. Conclusion

The economic slowdown caused by the Covid-19 pandemic has reduced payment activities, but has encouraged the acceleration of digital financial technology adoption. Cash growth contracted in line with the implementation of the PSBB which reduced mobility and the need for cash transactions for the community. Non-cash payment transactions through ATMs, Debit Cards, Credit Cards, and Electronic Money (EU) have contracted, digital banking transactions and payment transaction volumes have slowed. Positive developments can be seen in the increasing preference and acceptance of the public towards the use of digital financial platforms and instruments, such as e-commerce, to fulfill their daily needs.

The economic slowdown due to Covid-19 has reduced payment activity, but has accelerated the adoption of digital financial technology. Cash growth contracted in line with the implementation of the PSBB which reduced mobility and the need for cash transactions for the community. Digitalization of banking with BMT 4.0 has been adapted by BMT Amanah Ummah in Kartasura, Sukoharjo. The goal is to help customers or members manage their finances, as well as help businesses stay relevant in the challenging financial industry landscape. BMT Amanah Ummah as one of the growing Islamic financial institutions provides the BMT Amanah Ummah Mobile application for its members. This BMT Amanah Ummah mobile application can be a transaction solution without having to leave the house. BMT Amanah Ummah Mobile has features that can be used to transfer money to other BMT UMY member accounts, pay for electricity, credit, zakat, infaq, alms and others. Of course, all payments and transfers are debited from members' own savings in BMT Amanah Ummah.

With the optimization of digital banking performance, it is hoped that Islamic financial institutions such as BMT can make it easier to store funds and analyze customer or member data. So that it can help Islamic financial institutions in maintaining relationships and cooperation with customers, better handling complaints from customers, and being able to develop more appropriate products or services more quickly, cheaply, clearly and transparently for customers of Islamic financial institutions. Increased efficiency in the banking world occurs since it is no longer just investing in branch offices and customers do not have to bother coming to branch offices, for example to transfer money to families from different regions. What's more, this service provides many conveniences for customers in conducting their economic transactions.

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