


## ROOT CAUSE ANALYSIS FACTORS AGAINST ISLAMIC BANKING FINANCIAL INCLUSION

Siti Mujiatun<sup>A</sup>, Afif Badawi<sup>B</sup>



ARTICLE INFO	ABSTRACT
<p><b>Article history:</b></p> <p><b>Received</b> 20 February 2023</p> <p><b>Accepted</b> 11 May 2023</p> <p><b>Keywords:</b></p> <p>Financial Inclusion; Islamic Banking; Root Cause Analysis.</p> 	<p><b>Purpose:</b> The aim of this study is to analyze the achievement of Islamic financial inclusion targets through increasing the digitization of Islamic banking in Indonesia using the Islamic financial inclusion index.</p> <p><b>Theoretical framework:</b> The theoretical framework shows that financial inclusion is the biggest challenge in improving Islamic finance, this is in line with the targets from the road map from regulators and previous research, one of which is in 2020. So that if financial inclusion does not increase, it can hamper the development of Islamic finance in a comprehensive and sustainable.</p> <p><b>Design/methodology/approach:</b> The Method using the root cause analysis method of the inhibiting factors for Islamic banking financial inclusion and a literature study that examines the financial inclusion index and the results of Islamic financial inclusion research.</p> <p><b>Findings:</b> From the research that has been done, it containing that the level in Islamic financial inclusion from 2019 to 2021 is 76.91% even though the 2024 financial inclusion target by the regulator is 90%. For this reason, a strategy for achieving Islamic financial inclusion through digitalization is needed, including opportunities from the post-covid-19 era that support sustainable digitalization.</p> <p><b>Research, Practical &amp; Social implications:</b> The research results imply that the regulators and Islamic banking must induce the financial inclusion index achievement towards the 2024 target.</p> <p><b>Originality/value:</b> This article is an academic contribution that allow an understanding about research Root cause analysis factors against islamic banking financial inclusion.</p> <p>Doi: <a href="https://doi.org/10.26668/businessreview/2023.v8i5.1053">https://doi.org/10.26668/businessreview/2023.v8i5.1053</a></p>

## FATORES DE ANÁLISE DE CAUSA RAIZ CONTRA A INCLUSÃO FINANCEIRA BANCA ISLÂMICA

### RESUMO

**Objetivo:** O objetivo deste estudo é analisar a conquista das metas de inclusão financeira islâmica por meio do aumento da digitalização do sistema bancário islâmico na Indonésia usando o índice de inclusão financeira islâmica.

**Quadro teórico:** O quadro teórico mostra que a inclusão financeira é o maior desafio na melhoria das finanças islâmicas, isso está de acordo com as metas do roteiro dos reguladores e pesquisas anteriores, uma das quais é em 2020. Portanto, se a inclusão financeira não aumentar, pode dificultar o desenvolvimento das finanças islâmicas de forma abrangente e sustentável.

<sup>A</sup> Doctor Islamic Economic. Lecturer of management department of Universitas Muhammadiyah Sumatera Utara. Medan. E-mail: [sitimujiatun@umsu.ac.id](mailto:sitimujiatun@umsu.ac.id) Orcid: <https://orcid.org/0000-0002-0364-9126>

<sup>B</sup> Master in Computer. Lecturer of management department of Universitas Pembangunan Pancabudi. Medan. E-mail: [afifbadawi@dosen.pancabudi.ac.id](mailto:afifbadawi@dosen.pancabudi.ac.id) Orcid: <https://orcid.org/0000-0002-2292-3709>

**Desenho/metodologia/abordagem:** O Método usando o método de análise de causa raiz dos fatores inibidores da inclusão financeira bancária islâmica e um estudo da literatura que examina o índice de inclusão financeira e os resultados da pesquisa islâmica sobre inclusão financeira.

**Resultados:** A partir da pesquisa realizada, constatou-se que o nível de inclusão financeira islâmica de 2019 a 2021 é de 76,91%, embora a meta de inclusão financeira de 2024 do regulador seja de 90%. Por esse motivo, é necessária uma estratégia para alcançar a inclusão financeira islâmica por meio da digitalização, incluindo oportunidades da era pós-covid-19 que apoiem a digitalização sustentável.

**Implicações de pesquisa, práticas e sociais:** Os resultados da pesquisa indicam que os reguladores e os bancos islâmicos devem induzir a conquista do índice de inclusão financeira em direção à meta de 2024.

**Originalidade/valor:** Este artigo é uma contribuição acadêmica que permite uma compreensão sobre a pesquisa de fatores de análise de causa raiz contra a inclusão financeira bancária islâmica.

**Palavras-chave:** Inclusão Financeira, Banca Islâmica, Análise de Causa Raiz.

## FACTORES DE ANÁLISIS DE CAUSA RAÍZ EN CONTRA DE LA INCLUSIÓN FINANCIERA DE LA BANCA ISLÁMICA

### RESUMEN

**Propósito:** El objetivo de este estudio es analizar el logro de los objetivos de inclusión financiera islámica mediante el aumento de la digitalización de la banca islámica en Indonesia utilizando el índice de inclusión financiera islámica.

**Marco teórico:** El marco teórico muestra que la inclusión financiera es el mayor desafío para mejorar las finanzas islámicas, esto está en línea con los objetivos de la hoja de ruta de los reguladores y la investigación previa, una de las cuales es en 2020. De modo que si la inclusión financiera no aumentar, puede obstaculizar el desarrollo de las finanzas islámicas de una manera integral y sostenible.

**Diseño/metodología/enfoque:** El Método utiliza el método de análisis de causa raíz de los factores que inhiben la inclusión financiera de la banca islámica y un estudio de literatura que examina el índice de inclusión financiera y los resultados de la investigación de inclusión financiera islámica.

**Hallazgos:** De la investigación que se ha realizado, contiene que el nivel de inclusión financiera islámica de 2019 a 2021 es del 76,91 %, a pesar de que el objetivo de inclusión financiera para 2024 del regulador es del 90 %. Por esta razón, se necesita una estrategia para lograr la inclusión financiera islámica a través de la digitalización, que incluya oportunidades de la era posterior al covid-19 que apoyen la digitalización sostenible.

**Implicaciones sociales, prácticas y de investigación:** Los resultados de la investigación implican que los reguladores y la banca islámica deben inducir el logro del índice de inclusión financiera hacia el objetivo de 2024.

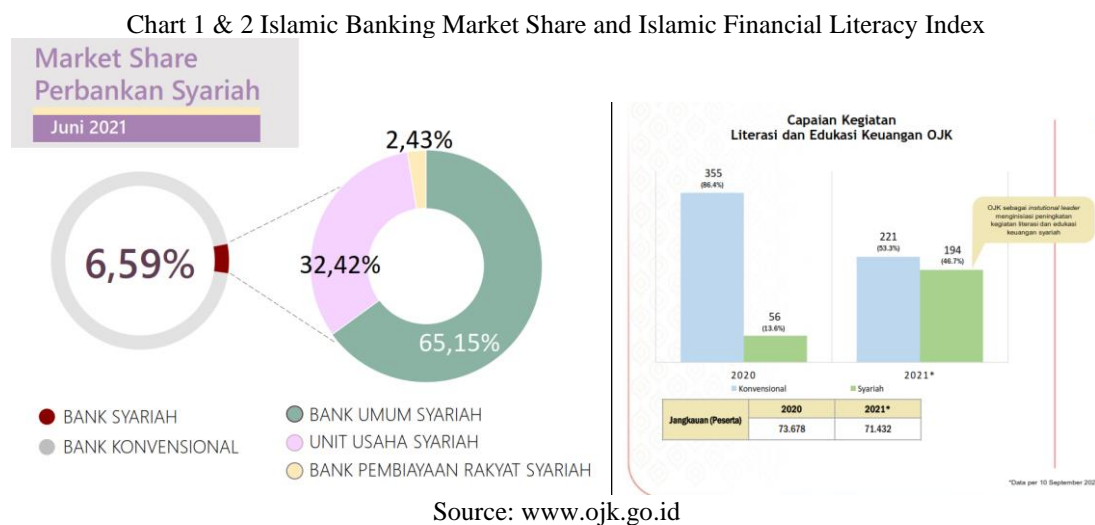
**Originalidad/valor:** Este artículo es una contribución académica que permite comprender los factores de análisis de causa raíz de la investigación contra la inclusión financiera de la banca islámica.

**Palabras clave:** Inclusión Financiera, Banca Islámica, Análisis de Raíz de la Causa.

### INTRODUCTION

The growth of Islamic finance is increasing as for the data found in 2018 regarding the growth of Islamic finance, it is stated that the prediction in 2023 that the growth of Islamic finance will grow to reach 3,809 billion USD (Newman et al., 2018). This global prediction strongly supports the conditions in Indonesia that Indonesia as a Muslim-majority country has the potential to develop Islamic finance. In Islamic finance, financial performance is needed which will later find out the process of implementing the company's financial resources or other groups (Susanto et al., 2021). It is difficult to develop Islamic finance, various ideas and innovations are carried out in improving and achieving targets, data obtained from the regulator that the Islamic financial market in Indonesia in 2020 is 6.59 percent, Meanwhile, when viewed

from the 2021 Islamic financial literacy index data based on data from the Financial Services Authority, it is as shown below (Otoritas Jasa Keuangan, 2021):



Based on the existing data, it is the background for the authors to be interested in further researching the problem of not achieving the target of market share, namely through financial inclusion. Because financial inclusion based on previous research is one of the factors that influence the increase in Islamic finance. The topic of financial inclusion becomes important in the international community which is discussed at the G20, APEC, AFI, OECD, and ASEAN meetings intensively so that it becomes a priority for the Indonesian government. In terms of increasing financial inclusion in Indonesia, the main focus is the extent to which the use and participation of Bank Indonesia and the Financial Services Authority is currently being discussed, which is being discussed, many obstacles have even become an international issue. From the comparison of countries such as Singapore, Malaysia, and Thailand it reached 66%, 98%, and 73% compared to Indonesia (Gunawan et al., 2019). Sanjaya and Ummah (Ummah Badriatul B, 2014) research stated that financial inclusion in all provinces of Indonesia is low, ranging from 0.1-0.33, except for Jakarta, which is 0.8. Meanwhile, the conventional financial inclusion level in 2019 reached 67.8%, while the Islamic financial inclusion level in Indonesia in 2019 reached 11.1%. (Laili & Kusumaningtias, 2020).

With the amount of information available, stated that after a study was carried out from various sides and sources stated that it was important to increase sharia financial inclusion. The dimension of financial inclusion focuses on justice and equity for the general public, while these dimensions are accessibility, availability and number of service users.

Critical questions arise as to why financial inclusion is important and whether only of these three dimensions are the important points of financial inclusion. Of course, the analysis of these answers is an important consideration point why this research was carried out which took a discussion of "Root Cause Analysis Factors Against Islamic Banking Financial Inclusion", the main focus is efforts to reduce poverty, realize development and equity for welfare that can be felt by the community because the main purpose of financial inclusion is to encourage. This assertion has also been proven through previous research conducted by Salma and Pais in 2011 which proved that the level of human development and financial inclusion has a positive relationship.. This affirmation has also been proven through previous research conducted by Salma and Pais in 2011 which proved that the level of human development and financial inclusion has a positive relationship (Lionardo & Rahmayanti, 2019).

Financial inclusion is an effort that aims to minimize price and non-price barriers to the general public, so that they can take advantage of financial services on a daily basis (Dahrani et al., 2022), Therefore, it is so important to discuss the inclusion of Islamic finance in order to increase welfare growth for people in Indonesia, where the majority of the population is Muslim. Financial inclusion is an important indicator oriented towards justice and equity. According to Islam, the government is obliged to equalize the economy and avoid income inequality. Thus, the author is interested in conducting a study in this research regarding the fundamental problems that are so important in Islamic financial inclusion, especially in Islamic banking, across financial systems and activities for society as a whole. Thus, the purpose of this study is to find out and analyze the root causes of sharia financial inclusion through root cause analysis research so that the fishbone will be conveyed in the research results.

## **LITERATURE REVIEW**

### **Financial Inclusion**

Financial inclusion has a financial service dimension, namely access to all financial service products, access to financial services is intended for people who have low incomes and have not been able to reach financial institutions. Access to this community can provide equal opportunities to all elements of society in accessing capital. Access to financial services is not only affordable in terms of distance to financial institutions, but also affordable in terms of the cost of financial service products. Financial inclusion in the sharia perspective is an effort to increase public accessibility to Islamic financial institutions, so that the community is able to manage and distribute financial resources in accordance with sharia principles (Ahyar, 2019).

Financial inclusion does not only talk about reducing poverty because the most important thing to do is through innovative and effective growth that does not only benefit one party. Often there are many problems that occur such as declining income, declining assets and discriminatory policies. Inclusive growth is expected to be able to provide benefits not to the poor and middle class, even to the rich, to take part in this (Holle, 2019).

The benefits of financial inclusion for the public, regulators, government, and other parties are supporting financial system stability, reducing shadow banking or irresponsible finance, supporting financial market deepening, providing new market potential for banks, supporting the improvement of Indonesia's Human Development Index (HDI). , Contribute positively to sustainable and sustainable local and national economic growth, reduce inequality and low income conditions so as to improve the welfare of the people who are the hope of reducing poverty and progressing development. (Umar, 2017).

### **Efforts to Increase Islamic Financial Inclusion in Indonesia**

Efforts are being made to increase financial inclusion and achieve the targets set by the regulator. Of course, the targets that have been designed are a challenge for Indonesia to increase the inclusion of Islamic finance in Indonesia. The current condition of Islamic banking in Indonesia is a challenge as well as an opportunity to increase Islamic financial inclusion, because when viewed from the Islamic financial market share that has not been achieved, this target is a trigger to continue to innovate in improving Islamic finance. inclusion. Not only sharia financial inclusion, but also conventional financial inclusion, efforts still need to be increased because based on data produced by the regulator, financial inclusion is still low at 9.10% (2019 data) while conventional financial inclusion in 2019 reached 37.72%. When viewed based on historical data presented by the Financial Services Authority, the financial inclusion index in Indonesia from 2013 to 2019 was 59.74%, 67.8%, and 76.19% (Ali et al., 2020).

In this era of industry 4.0, financial inclusion is supported by information technology with a variety of products, services, and services that are system and application like OJK publishes a service called Laku Pandai which can be served by all banking parties. The basis of consideration for the issuance of Laku Pandai is because there are still many people who do not know, use, and obtain banking services and other financial services, for example the location of their residence is far from the location of the bank branch office. With the Laku Pandai program, banks are expected to be able to provide financial products and financial services that

are simple, practical, and easily accessible to the public. The more widespread and even distribution of people transacting on financial services, the community's economic activities can run in a sustainable manner and equitable distribution of economic growth between regions and villages (Putri, 2017).

Information technology also increases Islamic financial inclusion through Financial Technology (Fintech) as it is emphasized that fintech has an influence in increasing financial inclusion in Indonesia. Another impact of the development of fintech is encouraging the efficiency of the financial system, opening up opportunities and opportunities for home industries, MSME players to access sharia financial services (Laut & Hutajulu, 2019). However, Rusdianasari in Utami and Sitanggang (2021) argued that FinTech does not significantly affects financial inclusion.

### **Challenges of Islamic Financial Inclusion in Indonesia**

One of the supporters of inclusive finance that offers a variety of products, services and systems, namely Laku Pandai, which was created and published by the OJK for all banking parties. Publishing Laku Pandai is motivated by the fact that there are still many people who do not know, use, and obtain banking services and services, one of the reasons is the location of their residence which is far from the location of the branch office. It is hoped that the Smart Behavior Program will bring changes to people's lives in rural areas, where Latitude Smart provides banking products and services that are simple, practical, and easy to understand in terms of access. (Ummah Badriatul B, 2014).

Separate challenges for sharia financial inclusion in Indonesia are: (a) Increasing sharia market share which has not yet reached the target; (b) Increase in core capital of Islamic financial institutions, especially in banks for which the Financial Services Authority (OJK) Regulation No. 12/POJK.03/2021 concerning Commercial Banks has issued that there is a change in the core capital component of banks, and this becomes a challenge for Islamic banking if the same regulations apply, sharia banking must be able to increase its bank's core capital; (c) Increasing Islamic financial literacy. As we know that the level of Islamic financial literacy needs to be increased because the position in 2021 will reach 20.01%. The implementation of technology in fintech has the effectiveness of increasing financial inclusion by creating convenience and security for the public in the use of Islamic financial service technology (Abadi et al., 2020).



## MATERIAL AND METHODOLOGY

This study uses a qualitative approach using root cause analysis to draw out the key problems from the lack of Islamic financial inclusion and then describes it with an in-depth root cause analysis chart by combining Islamic financial inclusion problems, financial inclusion targets to be achieved, and challenges in increasing Islamic financial inclusion. This study also uses descriptive analysis with various literature studies regarding Islamic financial inclusion.

## RESULT AND DISSCUSSION

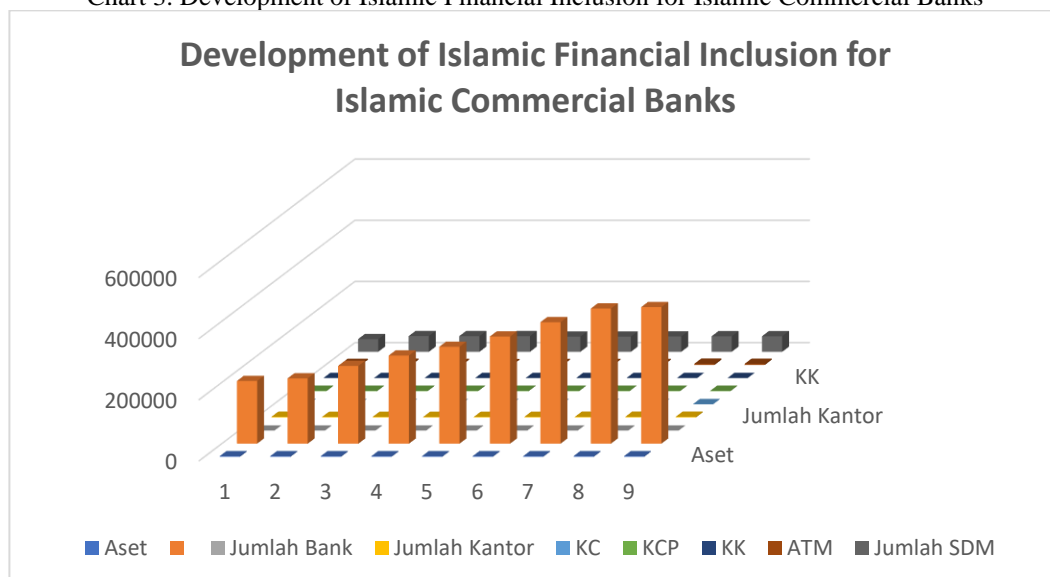
The development of the number of branch offices, cash offices, and ATMs with the following description:

Table 1. Development of Islamic Financial Inclusion for Islamic Commercial Banks

Asset	2014	2015	2016	2017	2018	2019	2020	2021	2022
	204.961	213.423	254.184	288.027	316.691	350.364	397.073	441.789	446.454
Number of Bank	12	12	13	13	14	14	14	12	12
Number of Office	2.163	1.990	1.869	1.825	1.875	1.919	2.034	2.035	2.036
Branch Offices	447	450	473	471	478	480	488	500	499
Supporting Branch Offices	1.511	1.340	1.207	1.176	1.199	1.243	1.351	1.345	1.345
Cash Offices	205	200	189	178	198	196	195	192	192
ATMs	3.350	3.571	3.127	2.585	2.791	2.827	2.800	3.879	3.807
Number of Human Resources	41.393	51.413	51.110	51.068	49.516	49.654	50.212	50.708	50.708

Source: [www.ojk.go.id](http://www.ojk.go.id) (Sharia Banking Statistics)

Chart 3. Development of Islamic Financial Inclusion for Islamic Commercial Banks



Source: [www.ojk.go.id](http://www.ojk.go.id)

The data above illustrates that the great potential that can be developed from the presence of the number of existing offices from 2014 to the First Quarter of 2022 is increasing, which means that it can serve various services and transactions needed by customers and the public to transact in Islamic banking. It is also supported by the availability of ATMs that help reach a wider area with the consideration of facilitating transactions because if you transact at a branch office, of course, you have operational limitations. So that Islamic banking prioritizes the expansion of the ATM network rather than the expansion of its branch offices. It is also supported by the Laku Pandai service, a sustainability program from the OJK, which hopes that the role of Islamic banking will further increase its Islamic financial market through the Laku Pandai program which not only makes it easier for customers to transact but also increases income and increases the number of entrepreneurs who earn income from services. Cooperation with business actors Smart Practice.

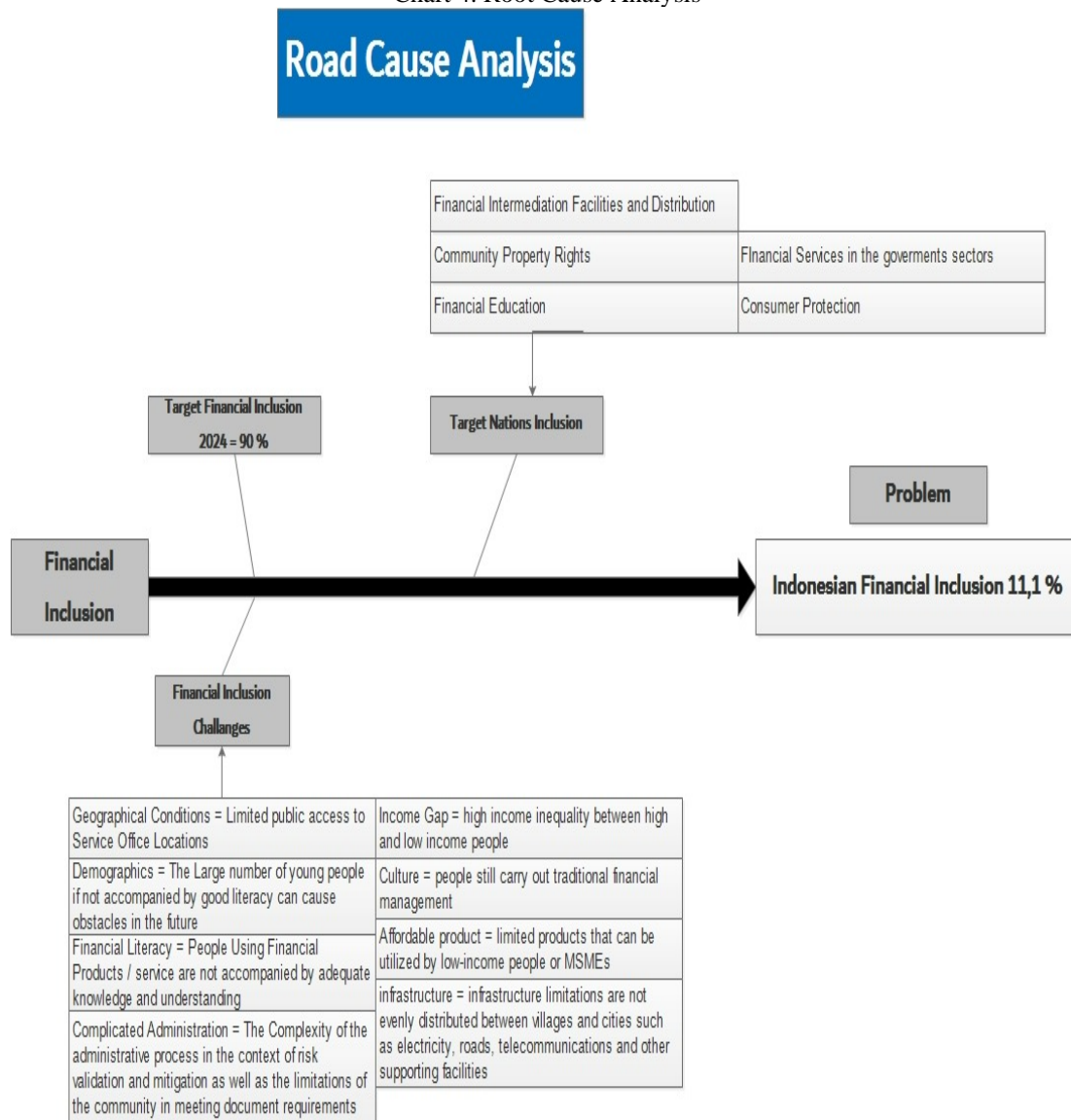
From the research had been done it containing that the level of Islamic financial inclusion from 2019 to 2021 is 76.91% even though the 2024 financial inclusion target by the regulator is 90%. Thus, a strategy for achieving Islamic financial inclusion through digitalization is needed, including opportunities from the post-covid-19 era that support sustainable digitalization.

The development of cutting-edge technology helps the effectiveness of Islamic financial inclusion, although, with various obstacles and obstacles, this can be achieved if there is continuous synergy by Islamic banking by prioritizing sustainable education. Of course, increasing the inclusion of Islamic finance requires processes and systems that are thoroughly decomposed with various aspects, policy levels, and increased awareness of Islamic finance. Through the digital role, there is an opportunity for increasing Islamic financial inclusion because currently, human life is in industry 4.0 which is inseparable from Islamic financial services that are real-time, effective, efficient, and safe in a sustainable manner.

Root cause analysis is the thing that is highlighted in this study, to analyze and explain the problems of Islamic financial inclusion and become a reference in the plan to improve its improvement strategy, it can be described as below:



Chart 4. Root Cause Analysis



Source: Prepared by the authors (2022).

From the root cause analysis picture above, it shows that with the problem of Islamic financial inclusion which only reached 11.1% and still has a significant long range, it is certainly the target of improvement and improvement of strategies that must be carried out by Islamic banking in increasing Islamic financial inclusion. Not only in terms of the problem, but through root cause analysis we know the challenges faced in achieving Islamic financial inclusion in the future with the target of the regulator in 2024 being 90%, which is a big task and responsibility together in order to achieve it. This task is a concern for regulators, stakeholders, the community, related institutions, academics, researchers, and Islamic economic activists in order to achieve the SDGs as a sustainable Islamic finance market share in Indonesia.

## CONCLUSION

The conclusion of the study is that regulators and Islamic banking must stimulate the achievement of a financial inclusion index towards the 2024 target, not only through conducive policies and regulations but also encourage Islamic banking to update its financial services through digital banking. This research only focuses on inclusive Islamic finance at Islamic Commercial Banks so it does not discuss it from the perspective of Islamic People's Financing Banks. So that in the future, further writers and researchers can discuss Islamic People's Financing Banks and also add Sharia Business Units to the data used.

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