

Digital transformation in the financial system: A comprehensive review of the literature on fintech and financial inclusion

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ABSTRACT

The digital technology revolution has brought a fundamental paradigm shift in the global financial services ecosystem, creating a digital transformation that integrates financial technology (fintech) as a key catalyst for expanding people's access to finance. Indonesia, the country with the largest digital economy in the ASEAN region, faces challenges as well as great opportunities in the implementation of digital transformation of the financial system, where the level of financial inclusion has reached 85.1%, but digital financial literacy has only reached 48%. This study aims to conduct a comprehensive analysis of digital transformation in the financial system through a systematic literature review that covers fintech developments and their impact on financial inclusion, identifies global and national trends, evaluates the effectiveness of fintech models, and develops a conceptual framework for the development of a sustainable fintech ecosystem. This study uses a qualitative approach with the Systematic Literature Review (SLR) method on national and international journal articles for the period 2021-2025 from Google Scholar, with the inclusion criteria of reputable articles that are relevant to the digital transformation of the financial system and financial technology. The analysis shows that fintech has proven effective in increasing financial inclusion for unbankable and underbanked segments through digital lending, mobile banking, e-wallets, and Sharia fintech. Key success factors include adequate technological infrastructure, digital literacy, consumer trust, supportive regulation, and strategic collaboration. Key challenges include regulatory uncertainty, digital divides, cybersecurity, and financial system stability. Digital transformation of the financial system requires proportionate regulation, massive digital infrastructure investment, sustainable literacy programs, robust security frameworks, and multi-stakeholder collaboration to realize an inclusive and sustainable fintech ecosystem.

Keywords: Fintech, Financial Inclusion, Digital Financial Systems, Financial Technology, Digital Transformation.

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1. INTRODUCTION

The digital technology revolution has brought about a fundamental paradigm shift in the global financial services ecosystem, creating a phenomenon known as digital transformation in the financial system. Advances in information and communication technology not only change the way consumers interact with financial services but also present innovative business models that integrate financial technology (fintech) as a key catalyst in expanding people's access to finance (Gomber et al., 2018). This evolution has shifted the traditional banking landscape towards a system that is more inclusive, efficient, and accessible to different walks of life that were previously unreachable by conventional financial services. In a global context, the digital transformation of the financial sector has shown a significant impact on increasing financial inclusion, where financial technology acts as a bridge connecting unbankable communities with formal financial services. Research conducted by Arner et al. (2020) revealed that fintech has strategic potential in supporting the achievement of Sustainable Development Goals (SDGs), especially in terms of poverty alleviation and sustainable economic development. This phenomenon is further strengthened by the increasing penetration of digital technology, Internet accessibility, and smartphone adoption, which allows digital financial service innovations to develop rapidly in various countries, including Indonesia.

Indonesia, as the country with the fourth largest population in the world and the largest digital economy in the ASEAN region, faces great challenges and opportunities for the implementation of digital transformation of the financial system. Data from Bank Indonesia show that Indonesia's financial inclusion rate has reached 85.1% in 2022, but there is still a significant gap in digital financial literacy, which has only reached 48%. This condition creates the urgency to conduct an in-depth study on how fintech can be optimized as an instrument to accelerate national financial inclusion (Marginingsih, 2021). The complexity of digital transformation in the financial system includes various interrelated dimensions, ranging from technological, regulatory, and socio-economic aspects to the impact on the stability of the financial system as a whole. Bibliometric studies conducted by Poonam (2022) show that research on fintech and financial inclusion has grown exponentially over the last decade, with a primary focus on the implementation of artificial intelligence, blockchain, machine learning, and other emerging technologies that are transforming the traditional financial services landscape. The COVID-19 pandemic has accelerated the adoption of digital technology in the financial sector, in which fintech is a vital solution for maintaining the continuity of financial services amid social restrictions and physical distancing. This phenomenon has permanently changed consumer behavior, where preferences for digital financial services have increased dramatically, creating an unstoppable transformation momentum (World Bank, 2023). This situation requires a comprehensive understanding of how financial technology can be optimally integrated to achieve sustainable financial inclusion.

Based on the background described above, this study formulated several fundamental problems that need to be studied in depth. First, what are the trends and patterns of digital transformation in the financial system based on a comprehensive literature review from a global and national perspective? Second, to what extent is fintech implementation effective in increasing the level of financial inclusion of the public, especially for the unbankable and underbanked segments? Third, what are the key factors that affect the success of financial technology integration in traditional financial ecosystems? Furthermore, this study also identifies the challenges and opportunities faced in the digital transformation of the financial system, including aspects of regulation, technological infrastructure, digital literacy, cybersecurity, and their impact on the stability of the national financial system. This problem has become increasingly complex given the heterogeneity of demographic, geographical, and socioeconomic characteristics of Indonesian society, which requires an approach adapted to local conditions.

This study conducts a comprehensive analysis of digital transformation in the financial system through a systematic literature review of fintech developments and their impact on financial inclusion. Specifically, the main objective of this study is to identify and analyze global and national trends in the implementation of financial technology as an instrument to increase access to financial services for the wider community. The second objective is to evaluate the effectiveness of various fintech models and platforms in bridging

the financial inclusion gap, including an analysis of the factors supporting the successful implementation of financial technology. This study also aims to identify the best practices and lessons learned from various fintech implementation case studies in various countries that can be used as a reference for the Indonesian context. Furthermore, this study aims to develop a conceptual framework that can be used as a strategic guide for the development of a sustainable and inclusive fintech ecosystem. The final goal is to provide policy recommendations and implementation strategies that can accelerate the digital transformation of the financial system to achieve the national financial inclusion target.

The results of this study are expected to significantly contribute to the development of science in the fields of digital finance and financial technology through a comprehensive synthesis of various empirical studies that have been conducted. The theoretical benefits of this study include the development of a conceptual framework that can serve as a basis for further research on the digital transformation of the financial system and financial inclusion. From a practical perspective, this study provides benefits for fintech industry players, traditional financial institutions, and regulators in understanding the dynamics of digital transformation and its implications for business strategies and regulatory policies. The results of this study can serve as a reference for the development of fintech products and services that are more responsive to the needs of the community, especially segments that have not been served by the formal financial system. This study provides strategic insights for governments and policymakers to formulate regulations and policies that support the development of a healthy, safe, and sustainable fintech ecosystem. The resulting recommendations can help in the preparation of a digital transformation roadmap for the financial sector, which is in line with national economic development targets and achievement of the SDGs. The social benefit of this research is that it provides a better understanding of the opportunities and challenges in the use of financial technology to improve economic welfare. The results of this research can be the basis for the development of a more effective and targeted digital financial literacy program to accelerate the widespread and responsible adoption of financial technology.

2. THEORETICAL BACKGROUND

Today, in the modern era, all business transactions in fast, in some of the details in the digital era and payment was instant. To the point where the now if some business was not accompanied by financial technology, it would be business behind because these facilities fintech services were no longer but have special needs. In the last few years, almost all traditional banks, leveraging their strength in a regulatory and existing customer base, have collaborated with fintech market entrants to incorporate emerging innovative technologies (Luigi et al., 2020). Fintech is a payment that is very popular because it is practical and simple. For the time being fintech already is required, people do not have to carry money too much in spite of possible loss and stolen money, and the payment process is faster. The need for more mobile and easily available financial services is another element that propels the advancement of financial technology (Baig et al., 2023). Financial inclusions are very helpful to the financial needs of all societies, accessible everywhere and by anyone, so people get access to financial services without having to go to conventional banks. Financial inclusion is the integration of various FinTech platforms to make formal financial services available, accessible, and affordable to all households and enterprises regardless of their level of income (Arner et al., 2018).

3. METHODOLOGY

This study uses a qualitative approach with the Systematic Literature Review (SLR) method to analyze digital transformation in the financial system, especially related to fintech and financial inclusion. SLR was chosen as the research methodology because it provides a systematic, transparent, and replicable approach for identifying, evaluating, and synthesizing literature relevant to the research topic. This method allows researchers to produce comprehensive and objective findings through a structured and methodological review process. The main data sources for this study were national and international journal articles published from 2021 to 2025, with Google Scholar as the main database. The selection of this period is

based on the need to obtain up-to-date information that reflects the latest developments in the field of fintech and financial inclusion, especially in the context of the post-COVID-19 pandemic digitalization acceleration. The search strategy uses a combination of keywords: "fintech," "financial technology," "digital transformation," "financial inclusion," "financial inclusion," "digital transformation," "digital financial system," and "financial technology." Boolean operators (AND, OR) were used to optimize the search results and ensure the comprehensiveness of the collected literature.

The inclusion criteria were as follows: (1) articles published in reputable journals with a peer review system, (2) using Indonesian or English, and (3) having direct relevance to the topics of digital transformation of the financial system, financial technology, and financial inclusion. The exclusion criteria included articles that were not fully accessible, non-academic publications, and articles that were not relevant to the research focus. The article selection process was carried out through systematic stages: (1) initial search using predetermined keywords, (2) title and abstract screening, (3) reading full text to determine the relevance and quality of the article, and (4) data extraction from articles that met the criteria. Data analysis uses thematic content analysis techniques in which data from various literature sources are organized based on the main themes that emerge. The analysis process included coding, categorization, and interpretation to identify patterns, trends, and research gaps in the literature. The validity of the study was ensured through source triangulation and cross-validation to ensure the accuracy and reliability of the results (Figure 1).

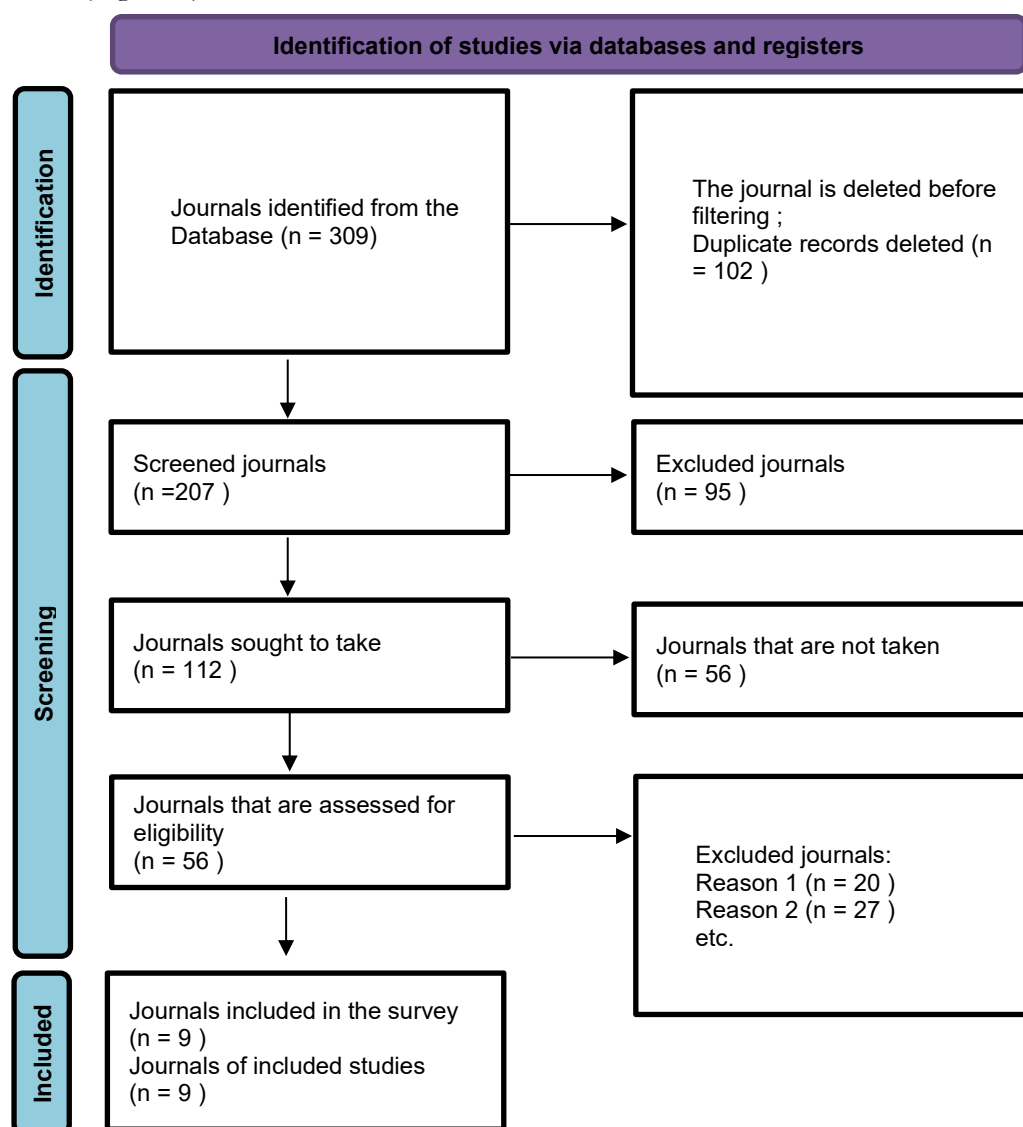


Figure 1. Flowchart Prisma

4. RESULT & DICUSSION

Table 1. Synthesis of journals/articles related to Digital Transformation in the Financial System on Fintech and Financial Inclusion

No	Author & Year	Heading	Research Focus	Methodology	Key Findings	Contribution to Financial Inclusion	Identified Challenges	Policy Recommendations
1	(Pratama et al., 2025)	Digital Transformation of the Economy in Supporting Financial Inclusion in Indonesia	The role of the digital economy in driving financial inclusion in Indonesia	VAR (Vector Autoregression), IRF and FEVD analysis	<ul style="list-style-type: none"> - Internet users and fintech are the main pillars of digitalization - Fintech affects internet users in the medium-long term - Long-term inflation is influenced by internet users 	Provide wider, efficient, and affordable access to financial services through technology	Short-, medium-, and long-term response stability	Effective and sustainable digitalization economic policies
2	(Eri Kusnanto, 2021)	Digital Transformation in Islamic Banking: Increasing Financial Inclusion Through Digital Education and Literacy	The role of digital transformation in increasing financial inclusion through Islamic banking	Community service programs: training, mentoring, and evaluation	<ul style="list-style-type: none"> - Significant increase in understanding and use of digital Islamic banking services - Growth of digital transactions among participants - Adoption of security practices such as 2FA 	Empowering the public with knowledge and skills to utilize digital Islamic banking services	<ul style="list-style-type: none"> - Digital understanding gap in low educated participants - The need for adjustment of training materials 	<ul style="list-style-type: none"> - Support for inclusive digital literacy policies - Better security protection
3	(Asif et al., 2023)	The Impact of Fintech and Digital Financial Services on Financial Inclusion in India	The impact of fintech and digital financial services on financial inclusion in India	Regression and correlation with secondary data from the RBI	<ul style="list-style-type: none"> - Fintech helps financial inclusion especially for the middle class - 80% of India's population has a bank account - Fintech is easy to understand and use by rural people 	Reach the underbanked segment and provide a stable operating environment	<ul style="list-style-type: none"> - Trust issues in fintech - services- - The need for caution in the use of services 	Bringing each individual into an organized financial system
4	(Omokhoa et al., 2023)	Digital transformation in financial services: Integrating AI, Fintech, and innovative solutions for SME growth	Digital transformation of financial services with the integration of AI, fintech for SME growth	Literature review and case study analysis	<ul style="list-style-type: none"> - AI, fintech, and cloud-based solutions overcome barriers to access to credit - AI technology improves customer experience 	Enabling non-traditional credit evaluation for underserved and SME populations	<ul style="list-style-type: none"> - Adoption costs - Regulatory barriers - Digital literacy gap - Cybersecurity risks 	<ul style="list-style-type: none"> - Development of digital infrastructure - Clear regulatory framework - Fintech-financial institution partnership

No	Author & Year	Heading	Research Focus	Methodology	Key Findings	Contribution to Financial Inclusion	Identified Challenges	Policy Recommendations
		and financial inclusion	and financial inclusion		- Digital ecosystem drives collaboration			
5	(Promise, 2025)	The Influence of Financial Technology (Fintech) on Payment System Transformation	The impact of fintech on payment system transformation in Indonesia	Literature study and empirical data	- Increase ease of access to digital payments - Encourage the growth of non-cash transactions - Speed up the settlement - process-Reduce transaction costs	Facilitating access to payments for people who are difficult to reach by conventional banking	- Cybersecurity risk - Risk of digital fraud - Infrastructure challenges - Low digital literacy	- Risk-based adaptive regulation - Strengthening security - Public education on the safe use of fintech
6	(Kanwal et al., 2023)	Exploring the Nexus of Financial Technologies, Financial Inclusion, and Blockchain in Islamic Finance within Digital Transformation	The relationship between financial technology, financial inclusion, and blockchain in Islamic finance	Comprehensive literature review, case studies	- Blockchain technology improves transaction transparency - Smart contracts can streamline regulatory processes - Islamic fintech must comply with Sharia principles	Sharia-compliant fintech can boost Islamic financial inclusion	- There is no formal regulation for Sharia-compliant fintech - The need for a proper Sharia governance structure	Evaluation of Sharia compliance in fintech operations and practices
7	(K. Ozili, 2023)	Determinants of FinTech and BigTech lending: the role of financial inclusion and financial development	FinTech and BigTech lending determinants with a focus on the role of financial inclusion and financial development	Difference-GMM and 2SLS regression (18 countries, 2013-2019)	- Financial inclusion and development are significant determinants of FinTech/BigTech lending - FinTech/BigTech lending increases the stability of the banking sector - Risk of increasing non-performing loans	FinTech and BigTech lending expand access to formal credit	- Credit risk - Operational risk - Cybersecurity risk - Concentration in the financial system	- Financial sector development policy - Market-enabling policies - Macroprudential safeguards
8	(Jange, 2024)	The Role of Financial Technology (Fintech) in Financial Services Transformation in Indonesia	The role of FinTech in Indonesia's financial services transformation	Impact analysis on financial inclusion, regulation, and data security	- FinTech increases access to financial services - Digital payment innovation and P2P lending	Expanding access to financial services for underserved communities by traditional banks	- Immature regulation - Data security issues - Financial stability risks	- Government-regulator-industry collaboration- Adaptive regulatory framework - Robust data protection

No	Author & Year	Heading	Research Focus	Methodology	Key Findings	Contribution to Financial Inclusion	Identified Challenges	Policy Recommendations
					Reducing social inequality			
9	(Arner et al., 2018)	Fintech for Financial Inclusion: A Framework for Digital Financial Transformation	Framework for digital finance transformation with a FinTech focus for financial inclusion in Nigeria	ARDL bounds test cointegration approach	- Direct measures FinTech (ATM, web pay, mobile banking, POS) have a positive impact Shift from ATMs to mobile devices - Financial inclusion index has a positive effect on economic growth	The digitalization of financial services has successfully transformed the classical financial system	- ATM galleries closed due to high maintenance costs and security - 22,500 ATMs are not enough for Nigeria - Usage indicators are not yet significant	Development of financial infrastructure and its application for economic growth

4.1. Development of Digital Transformation Trends and Patterns in the Global and National Financial System

1. Global Trends in Financial System Digital Transformation

The evolution of financial technology has undergone significant metamorphosis over the last decade, from a simple payment system to a comprehensively integrated digital financial ecosystem (see Table 1). Omokhoa et al. (2023) explain that digital transformation in financial services has revolutionized the industry through the integration of artificial intelligence, fintech innovations, and other advanced technologies to drive financial inclusion, as well as the growth of small and medium-sized businesses. This phenomenon reflects a paradigm shift from conventional financial services to a digital ecosystem that is more adaptive and responsive to modern consumers' needs. The growth of venture capital investment in the global fintech sector has accelerated exponentially, especially in the 2021-2025 period, marked by increasing investor confidence in the potential of financial technology. Asif et al. (2023) identify that fintech companies in India are receiving significant attention as the government seeks to expand financial services to underserved segments of the population. This trend is not only limited to one geographical area but also reflects a global phenomenon where financial technology is a major catalyst in the transformation of the traditional financial ecosystem.

The adoption of emerging technologies, such as blockchain, artificial intelligence, machine learning, and big data analytics, has become a major foundation in the evolution of contemporary fintech. Ozili (2023) elaborated that blockchain technology is a more secure and innovative business method that improves transaction transparency and accessibility for all users. The integration of these advanced technologies allows the creation of financial solutions that are more efficient, secure, and accessible to various levels of society. The development of Central Bank Digital Currencies (CBDCs) in various countries marks a new era in the global monetary system, where central banks are beginning to explore the implementation of official digital currencies in response to the growing cryptocurrency and the need to modernize payment systems. This phenomenon reflects the adaptation of traditional financial institutions to the rapid development of digital technology.

2. Patterns of Digital Transformation of the Financial System in Indonesia

The digital transformation of Indonesia's financial system follows a comprehensive banking digitalization roadmap, with the implementation of open banking as the main strategy in the modernization of financial services. [Pratama et al. \(2025\)](#) state that the digital economy plays a crucial role in encouraging financial inclusion through the provision of wider, efficient, and affordable access to financial services through technology. This implementation includes not only technological aspects but also sustainability factors to increase economic growth and reduce the rate of inflation. The growth of Indonesian fintech unicorns such as Gojek, Grab, OVO, and Dana reflects the dynamics of the rapidly growing startup ecosystem in providing innovative solutions for the community. [Promise \(2025\)](#) explains that the development of financial technology has brought significant changes to various aspects of financial services, especially in payment systems that bring innovations to make digital payments easier, faster, and more accessible. This phenomenon shows that Indonesia has great potential for developing a competitive fintech ecosystem at regional and global levels.

The Financial Services Authority (OJK) sandbox regulation has served as a catalyst for fintech innovation by providing a safe testing environment for fintech startups to develop their products and services. The implementation of the Quick Response Code Indonesian Standard (QRIS) has had a significant impact on financial inclusion by providing a standardized digital payment infrastructure that can be accessed by various levels of society. Strategic collaboration between conventional banks and fintech startups creates synergies that benefit both parties by providing more comprehensive financial services. [Kusnanto \(2021\)](#) emphasizing the importance of collaboration with local Islamic financial institutions to ensure that digital transformation can be implemented inclusively, especially in the context of Islamic banking which has unique characteristics (see Table 2).

Table 2. Comparison of Digital Transformation Trends in the Global Financial System vs Indonesia

Aspects	Global Trends	Indonesian Patterns
Key Technologies	AI, Blockchain, Machine Learning	Mobile Payment, E-wallet, Digital Banking
Regulation	Regulatory Sandbox, CBDC Development	OJK Sandbox, QRIS Implementation
Business Model	Embedded Finance, Banking-as-a-Service	Super App Model, Partnership Bank-Fintech
Inclusion Focus	Underbanked Population	Rural Areas, MSMEs, 3T Regions
Investment	Venture Capital Growth	Unicorn Development

Source: Adapted from (Omokeboa et al., 2023),(Asif et al., 2023),(Pratama et al., 2025),(Promise, 2025)and (Eri Kusnanto, 2021)

3. *Synthesis of Digital Transformation Patterns and Trends*

The identification of the key drivers of the digital transformation of the financial system shows the convergence of technological advancements, changes in consumer behavior, and adaptive regulatory support. [Pratama et al. \(2025\)](#) used Vector Autoregression (VAR) analysis to show that Internet users and fintech are the main pillars in realizing digitalization to build financial inclusion, which also has an impact on economic growth, savings, and inflation. This analysis reveals the complexity of the interaction between the variables of the digital economy to provide valuable insights for effective and sustainable policy formulation. A comparison of the pace of fintech adoption between developed and developing countries shows an interesting pattern, where developing countries often show higher adoption rates due to the urgent need to access financial services and limited traditional financial infrastructure. [Asif et al. \(2023\)](#) find that fintech plays a significant role in the financial inclusion of rural communities in the Indian economy, with factors of behavioral intention, service trust, usability, and social influence, which have a significant impact on the use of fintech services.

4.2. The Effectiveness of Fintech Implementation in Increasing Financial Inclusion

1. *Analysis of Fintech's Impact on the Unbankable and Underbanked Segments*

The unbankable and underbanked segments in Indonesia have unique characteristics, including people with limited access to traditional banking services, especially in rural areas and low-income communities. [Kusnanto \(2021\)](#) identified that digital transformation in Islamic banking can increase financial inclusion by empowering people with the knowledge and skills necessary to safely and effectively utilize digital banking services. Digital education and literacy programs significantly increase the understanding and use of digital banking services, especially in previously underserved areas. A quantitative analysis of increased access to financial services through fintech platforms shows a substantial positive impact on reaching segments of society that previously did not have access to formal financial services. [Asif et al. \(2023\)](#) report that financial inclusion in India has seen a significant increase in recent years, with the number of Indians with bank accounts reaching approximately 80% today. Fintech is proving to make a significant contribution to this achievement, especially for the middle class.

A case study of fintech's success in reaching MSMEs and rural communities shows that digital platforms can overcome geographical and bureaucratic barriers that have been the main obstacles in accessing financial services. [Omokhoa et al. \(2023\)](#) explain that the digital ecosystem encourages collaboration between MSMEs, financial institutions, and technology providers, strengthening credit access, operational efficiency, and market opportunities through seamless data exchange and cross-platform integration. An evaluation of the effectiveness of digital lending, mobile banking, and e-wallets in financial inclusion shows that these three service models uniquely contribute to expanding access to finance. [Prasetya \(2025\)](#) elaborated that fintech not only makes it easier to access payment services for various levels of society, but also improves efficiency and speed and reduces transaction costs compared to traditional methods. Easy access through digital platforms, such as e-wallets and mobile payment applications, has accelerated financial inclusion and opened up new opportunities for MSMEs.

2. *Effective Fintech Models and Platforms for Financial Inclusion*

The typology of the fintech business model includes various segments such as payment, lending, investment, insurance, and wealth management, each of which has specific characteristics and targets markets. [Ozili \(2023\)](#) argues that financial technology in Islamic finance has various advantages, but also faces many challenges, where fintech applications must avoid fraud, fraud, and other behaviors that can harm users while upholding Islamic values of equality, justice, and transparency. An analysis of the success of the super app model in the Indonesian context shows that the integration of various services in one platform provides users with high convenience and efficiency. This model has proven to be effective in increasing user engagement and retention because it provides a comprehensive ecosystem for various financial and nonfinancial needs. The role of Sharia fintech in increasing the financial inclusion of the Muslim community shows great potential in accommodating the needs of a segment of the population that has a preference for financial services in accordance with Sharia principles. [Kusnanto \(2021\)](#) shows that the community service program in Islamic banking digital literacy has succeeded in achieving the main goal of increasing the understanding and use of digital Islamic banking services, which contributes to the growth of digital transactions among the participants (see Table 3).

Table 3. The Effectiveness of Fintech Models in Financial Inclusion

Model Fintech	Target Segments	Impact of Inclusion	Key Challenges
Digital Lending	MSMEs, Unbankable	Microcredit access	Credit scoring, Risk assessment
Mobile Banking	Rural population	Access basic services	Digital literacy, Infrastructure
E-wallet	Urban, Semi-urban	Digital payments	Trust, Security concerns
Sharia Fintech	Muslim community	Sharia-compliant services	Sharia governance, Regulation
P2P Lending	Individual borrowers	Alternative funding	Default risk, Regulation

Source: Adapted from ([Asif et al., 2023](#)),([Eri Kusnanto, 2021](#)),([K. Ozili, 2023](#)),([Omokhoa et al., 2023](#)) and ([Prasetya, 2025](#))

3. Key Factors for Successful Financial Technology Integration

The analysis of the technology infrastructure as a fintech enabler shows that Internet connectivity and smartphone penetration are fundamental prerequisites for the successful implementation of fintech services. Through the analysis of the Impulse Response Function (IRF), [Pratama et al. \(2025\)](#) reveal the variable response to changes and the importance of response stability in the short, medium, and long term, where Internet users in the short term are influenced by Internet users themselves, but in the medium and long term, are significantly influenced by fintech. The role of digital and financial literacy in fintech adoption is a critical factor in determining the success rate of financial technology implementation. [Kusnanto \(2021\)](#) identified that the main challenge is the digital understanding gap among participants with low educational backgrounds, which requires an adaptive approach to training materials. The success of the digital literacy program is characterized by increased awareness among participants of the importance of security in digital transactions, including the adoption of security practices, such as two-factor authentication.

Consumer trust, as a critical factor in the use of fintech services, demonstrates the complexity of the relationship between technology and consumer psychology. [Asif et al. \(2023\)](#) found that trust issues are more important in the fintech field than other industries because digital services that manage people's money are directly linked to their financial well-being. Therefore, trust is crucial and fintech must be able to build and maintain trust. User experience strategy and customer journey optimization are the main differentiators in fintech competition, which is becoming increasingly fierce. [Omokhoa et al. \(2023\)](#) emphasized that AI tools, such as predictive analytics and chatbots, play a role in improving operational efficiency and customer experience while considering ethical aspects in their implementation. The importance of interoperability and standardization in the fintech ecosystem is reflected in the implementation of the QRIS in Indonesia, which allows various digital payment platforms to be interconnected and used universally. Traditional fintech banks' strategic collaboration as a success factor shows that the partnership model is more effective than head-to-head competition in providing comprehensive services for consumers.

Regulatory compliance and risk management as a foundation show that the long-term success of fintech depends not only on technological innovation but also on the ability to operate within existing regulatory frameworks while managing a wide range of operational, financial, and reputational risks. [Promise \(2025\)](#) emphasizes that adaptive and risk-based regulation is a key element in overseeing the development of fintech to support innovation without neglecting the stability and security of the payment system. In conclusion, digital transformation in the financial system has undergone a significant evolution from a simple payment gateway to a complex integrated ecosystem. Fintech implementation has proven effective in increasing financial inclusion, especially for unbankable and underbanked segments, through various business models that are adaptive and responsive to market needs. The success of financial technology integration is highly dependent on the convergence of infrastructure factors, digital literacy, consumer trust, supportive regulations, and strategic collaboration among various stakeholders in the digital financial ecosystem.

4.3. Challenges, Opportunities, and Strategies for Sustainable Fintech Ecosystem Development

1. Identify Challenges in the Digital Transformation of the Financial System

Based on a comprehensive analysis of the literature reviewed, digital transformation in the financial system faces several complex challenges that require serious attention from various stakeholders. The first and most significant challenge is the immature regulatory problem, as identified by the [\(Jange, 2024\)](#) which states that "immature regulations and data security issues" are the main obstacles to the growth of the fintech sector. This regulatory uncertainty creates difficulties for industry players in operating their services optimally, especially in cross-border contexts that require compliance with various legal jurisdictions. The problem of technological infrastructure is the second challenge, which is not crucial to fintech ecosystems. The still-wide digital divide between urban and rural areas creates significant barriers to access digital financial services. Increasingly complex cybersecurity threats have also raised serious concerns about data

integrity and consumer trust. In addition, the suboptimal interoperability of the system between various fintech platforms and traditional financial institutions creates service fragmentation, which can hinder overall operational efficiency.

The challenge of digital literacy is a fundamental aspect of the adoption of financial technology, especially in developing countries such as Indonesia and India. [Asif et al. \(2023\)](#) find that while fintech has a positive impact on financial inclusion, there is still a significant intergenerational and geographic gap in technology knowledge. This results in most people, especially in rural areas, not being able to make optimal use of the available digital financial services. Cybersecurity and consumer protection are the main concerns in the sustainable development of fintech ecosystems. [Jange \(2024\)](#) emphasizing that "data security that is not yet optimal poses risks that can hinder the growth of this sector." These challenges include fraud prevention, data privacy protection, and transaction security guarantees, which are the foundations of public trust in fintech services.

The impact on the financial system stability is also a challenge that requires special attention. [Poonam \(2022\)](#) identifies that "FinTech and BigTech lending can pose systemic risks and also pose an increased risk of bad loans." This systemic risk can arise from the concentration of services on a few large players, which can create instability in the event of an operational outage or a system failure. An equally important socio-economic challenge is the shift in jobs in the traditional financial sector due to the automation and digitalization of services. This transformation has the potential to have a negative impact on a workforce that does not have adequate digital skills and requires a comprehensive reskilling and upskilling strategy.

2. Strategic Opportunity Analysis for Fintech Development

Despite facing various challenges, the fintech sector offers promising strategic opportunities for the development of an inclusive and sustainable digital economy. Considering the demographic bonus and the significant growth of the middle class, the potential of the fintech market in Indonesia is huge. This has created a broad consumer base for a wide range of innovative and affordable digital financial services. Expansion opportunities in sectors that have not been optimally penetrated are areas with a great potential for development. The insurance, investment, and wealth management sectors still have great room for growth, especially for lower-middle-class segments of society that previously did not have access to these services. Product and service innovations tailored to the needs and economic capabilities of a community can open a very wide market. Opportunities in green finance and sustainable fintech are becoming increasingly relevant areas with a global commitment to sustainable development. The development of financial products that support green investment and sustainable projects can be a significant competitive differentiator in the fintech industry.

The potential of cross-border payment and remittance services is a very promising strategic opportunity, especially given the increasing mobility of Indonesian workers abroad. Efficient, cheap, and secure services for money transfer between countries can provide significant added value to the national economy. The implementation of artificial intelligence and machine learning in financial services has opened up unlimited innovation opportunities. The use of these technologies can improve operational efficiency, risk analysis accuracy, service personalization, and the overall user experience. [Asif et al. \(2023\)](#) identified that "service trust, ease of use, and social influence have a significant impact on the use of fintech services," which can be optimally improved through the implementation of smart technology. The potential for collaboration with non-financial sectors, such as e-commerce, transportation, and health, opens opportunities to create an integrated digital ecosystem. This collaboration can result in super apps that provide a wide range of services on a single platform, improving user convenience and operational efficiency. Opportunities in financial education and digital literacy programs are strategic areas of long-term development. Investment in public education will not only increase the adoption of fintech services, but also create a more intelligent and responsible consumer base in the use of digital financial services.

3. Strategic Framework and Policy Recommendations

The development of a sustainable and inclusive fintech ecosystem requires a comprehensive and integrated strategic framework among various stakeholders. Based on the analysis of international best

practices and lessons learned from various countries, a holistic approach is needed that integrates the aspects of regulation, technology, education, and multi-stakeholder collaboration (see Table 4).

Table 4. Strategic Matrix of Challenges, Opportunities, and Policy Recommendations for the Development of the Fintech Ecosystem

Strategic Dimension	Key Challenges	Development Opportunities	Policy Recommendations
Regulation	Regulatory uncertainty, regulatory lag	Regulatory sandbox expansion	Proportionate regulation, harmonization of regulations across sectors
Technology	Digital divide, cybersecurity	AI/ML implementation, interoperability	National digital infrastructure investment, technical standardization
Literacy	Digital knowledge gap	Massive education program	Digital financial literacy curriculum, partnership with educational institutions
Security	Data privacy, fraud prevention	Consumer protection enhancement	Comprehensive cybersecurity framework, consumer protection mechanism
Economics	Job displacement, stability risk	Green finance, cross-border services	Reskilling program, adaptive prudential regulation

Source: Analysis based on (K. Ozili, 2023), (Jange, 2024), (Asif et al., 2023) and (Arner et al., 2018)

Policy recommendations for regulators should focus on expanding the regulatory sandbox that allows fintech innovation to flourish in a controlled environment, while still providing room for experimentation. Ozili (2023) emphasizing the importance of "policies that develop the financial sector as it is essential to increase FinTech and BigTech lending as well as aggregate lending in the economy." Proportionate regulation tailored to the level of risk and scale of operations is key to creating a supportive but still prudent regulatory environment. The national digital infrastructure development strategy should include a massive investment in Internet connectivity, standardization of technical protocols, and the development of an interoperable national payment system. Collaboration between the government and private sector in infrastructure development is a critical success factor that cannot be ignored. Digital financial literacy roadmaps and public education programs must be designed systematically and sustainably. The program should cover various segments of society, with approaches tailored to demographic and geographical characteristics. Jange (2024) emphasizing that "collaboration between governments, regulators, and industry players is needed to create an adaptive regulatory framework."

A multi-stakeholder collaboration framework should include governments, industry, academia, and civil society in the sustainable development of the fintech ecosystem. This collaboration must be formalized in the form of a clear governance structure with a clear but complementary division of roles and responsibilities. Risk mitigation strategies and strengthening consumer protection must be top priorities in fintech development. Asif et al. (2023) identifying that "trust issues are more important in the fintech field than any other industry." Therefore, robust consumer protection mechanisms, an effective complaint system, and continuous education about risks and how to mitigate them are needed. Recommendations for sustainable fintech development aligned with the Sustainable Development Goals (SDGs) must integrate environmental, social, and governance aspects in every development of fintech products and services. This includes promoting green finance, financial inclusion for marginalized communities, and operational transparency that supports public accountability. The sustainable development of the fintech ecosystem should not only focus on economic growth alone but also consider the long-term impacts on financial stability, social justice, and environmental sustainability.

5. CONCLUSIONS

Digital transformation in the financial system has undergone a significant evolution from a simple payment system to an integrated and comprehensive digital financial ecosystem. Based on a literature analysis, fintech has proven to be a major catalyst in increasing financial inclusion, especially for the unbankable and underbanked segments in Indonesia and other developing countries. The implementation

of financial technology through various business models, such as digital lending, mobile banking, e-wallets, and Sharia fintech, has succeeded in expanding access to financial services by providing solutions that are more efficient, affordable, and accessible to various levels of society. Research shows that the key factors for the success of digital transformation include adequate technology infrastructure, digital literacy of the community, consumer trust, supportive regulations, and strategic collaboration between fintech and traditional financial institutions. The implementation of the QRIS, the OJK regulatory sandbox, and the development of Indonesian fintech unicorns reflect positive dynamics in the national digital financial ecosystem. However, significant challenges remain in the form of regulatory uncertainty, digital divides, cybersecurity threats, and impacts on financial system stability, which require serious attention from various stakeholders. Strategic opportunities for fintech development include expansion into sectors that have not been optimally penetrated, implementation of AI and machine learning technology, development of green finance, cross-border payment services, and collaboration with the non-financial sector. Global trends point to the convergence of technological advancements, changing consumer behavior, and adaptive regulatory support as the main drivers of the digital transformation of the financial system. The long-term success of fintech depends not only on technological innovation but also on the ability to operate within existing regulatory frameworks while optimally managing various operational, financial, and reputational risks.

Based on the findings of the study, it is recommended that regulators develop proportionate regulations tailored to the level of risk and scale of fintech operations, while expanding the regulatory sandbox to encourage sustainable innovation. The government needs to invest massively in national digital infrastructure and implement systematic and sustainable digital financial literacy programs for various segments of society. Fintech industry players must prioritize the development of robust cybersecurity frameworks, effective consumer protection systems, and strategic collaboration strategies with traditional financial institutions. Academics and researchers are advised to conduct follow-up research on the long-term impact of fintech on financial system stability, the effectiveness of sustainable business models, and the development of comprehensive financial inclusion evaluation metrics. The development of a sustainable fintech ecosystem must integrate environmental, social, and governance (ESG) aspects with a focus on green finance and sustainable development goals as well as create a clear governance structure for multi-stakeholder collaboration between the government, industry, academia, and civil society to realize an inclusive and sustainable digital transformation of the financial system.

Ethical Approval

Ethical approval was not required for this study.

Informed Consent Statement

This research did not require informed consent.

Authors' Contribution

Conceptualization, R.W. and T.S.W.A.; methodology, R.W.; formal analysis, R.W. and T.S.W.A.; investigation, R.W.; resources, T.S.W.A.; writing original draft preparation, R.W.; writing review and editing, T.S.W.A. All authors have read and agreed to the published version of the manuscript.

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