
Implementation of Smart Digital Finance in Promoting Digital Financial Inclusion and Risk Management

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ABSTRACT

The development of digital finance has transformed financial systems in developing countries by enhancing efficiency, accessibility, and transparency, while simultaneously introducing new technological and institutional risks. This study analyzes the implementation of Smart Digital Finance in Indonesia and its role in promoting digital financial inclusion through the management of technological, trust, and security aspects. The study adopts a qualitative descriptive-analytical approach by systematically reviewing policy documents, institutional reports, and relevant academic literature.

The findings indicate that the development of interoperable digital payment infrastructure, particularly through QR-based payment systems, has expanded public access to formal financial services, improved operational efficiency through the utilization of digital transaction data, and supported the integration of micro and small enterprises into the formal economic system. Nevertheless, cybersecurity risks, personal data protection issues, digital fraud, and public trust remain major challenges to the sustainability of the digital financial system.

Therefore, this study emphasizes the importance of risk-sensitive regulation, strong consumer protection, secure digital identity systems, and effective institutional governance to ensure that Smart Digital Finance can promote inclusive economic growth and sustainable public financial governance in Indonesia.



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1. INTRODUCTION

The development of digital technology has brought fundamental changes to the global financial system, particularly in developing countries. The digitalization of financial services enables transactions to be conducted more quickly, at lower cost, and with greater transparency, while simultaneously expanding access to formal financial services. The World Bank Global Findex (2021) reports that approximately 24% of the world's adult population remains unbanked, indicating that digital transformation in the financial sector is viewed as a strategic instrument to accelerate financial inclusion and promote more inclusive economic growth.

In Indonesia, progress in financial inclusion has shown a positive trend, yet structural challenges remain. The National Survey on Financial Literacy and Inclusion (SNLIK) conducted by the Financial Services Authority (OJK) in 2022 recorded a financial inclusion index of 85.10%, a significant increase from 76.19% in 2019. However, this improvement in access has not been fully accompanied by deeper usage of financial services and access to productive financing, particularly among micro-enterprises and low-income communities.

Digital finance offers significant potential to enhance the efficiency of the financial system through reduced transaction costs, faster service delivery, and the utilization of digital transaction data as a basis for financial decision-making. Transaction data records enable financial institutions to conduct more adaptive risk assessments and service provision, thereby creating opportunities to integrate the informal sector into the formal financial system. Nevertheless, the expansion of digital financial services also introduces new technological and institutional risks.

Dependence on digital infrastructure increases exposure to cybersecurity threats, digital fraud, misuse of personal data, and potential system failures, all of which may undermine public trust. Trust is a critical determinant of successful digital finance adoption, particularly in developing countries that have historically been dominated by cash-based transactions and informal financial mechanisms.

In this context, Smart Digital Finance emerges as an approach that emphasizes that digital financial transformation should not focus solely on technological adoption, but must also be accompanied by systematic management of trust and security. In Indonesia, the rapid adoption of digital payments, supported by increasing internet penetration and the development of a national QR-based payment system, has expanded access to formal financial services, particularly for micro, small, and medium enterprises (MSMEs). However, challenges related to system security, consumer protection, and governance remain critical issues. Therefore, examining the implementation of Smart Digital Finance is essential to understand how the management of technology, trust, and security can determine the effectiveness of digital finance in promoting sustainable digital financial inclusion.

Research Questions

1. How is Smart Digital Finance implemented within Indonesia's digital financial ecosystem?
2. What is the role of digital technology in promoting financial inclusion through the digital financial system?
3. How do trust and security influence the adoption and sustainability of digital finance in Indonesia?
4. What are the implications of Smart Digital Finance for economic growth and public financial governance?

Research Objectives

1. To analyze the implementation of Smart Digital Finance within Indonesia's digital financial system.
2. To examine the role of digital technology as a driver of digital financial inclusion.
3. To identify trust-and security-related challenges within the digital finance ecosystem.
4. To explain the implications of Smart Digital Finance for economic growth and financial governance in Indonesia.

Literature Review and Hypothesis Development

Smart Digital Finance

Smart Digital Finance refers to the provision of financial services through digital infrastructure such as mobile networks, the internet, and electronic payment systems, enabling transactions without

the physical presence of financial institutions (World Bank, 2015). GSMA Intelligence (2016) reports that more than 90% of the population in developing countries is covered by mobile networks, while formal bank account ownership remains relatively low. This condition creates significant opportunities for leveraging digital technology to efficiently expand access to financial services. Digital finance generates transaction data footprints that can be used to assess users' financial behavior. Such data enable financial institutions to conduct more accurate creditworthiness assessments and extend financial services to individuals who previously lacked formal banking histories (Karlan et al., 2010).

Digital Financial Inclusion

Digital financial inclusion refers to the ability of individuals and business actors to access affordable and appropriate formal financial services that meet their needs (World Bank, 2015). The Global Findex (2014) reports that approximately 45% of the adult population in developing countries remains unbanked, primarily due to geographical barriers, high costs, and limited access to official identification documents. Digital finance has the potential to reduce transaction costs and expand service outreach to low-income groups and populations in remote areas, thereby supporting broader financial inclusion.

Digital Finance and Risk Management

The implementation of digital finance contributes to improved operational efficiency and risk management. Digital transactions enhance transparency in fund flows, reduce the potential for fiscal leakage, and mitigate the risks of fraud and corruption (Rogoff, 2016). Furthermore, the use of real-time transaction data enables early detection of credit and operational risks, thereby strengthening financial system stability (Evans & Pirchio, 2015).

2. METHOD

Type of Research

This study adopts a qualitative research approach with a descriptive–analytical focus. The qualitative approach is selected to obtain an in-depth understanding of the concept of Smart Digital Finance and the various factors influencing the adoption of digital financial systems in Indonesia. The descriptive–analytical design is employed to systematically describe observed phenomena while analyzing the interrelationships between policy frameworks, digital infrastructure, and user behavior within the digital financial ecosystem.

Data collection is conducted through a literature review by systematically examining relevant documents, reports, and scholarly articles. The use of secondary data allows the study to comprehensively capture policy dynamics and developments in Indonesia's digital financial system.

Data Sources

The data used in this study are derived from secondary sources, including reputable national and international academic journals and official publications from relevant institutions. Data are collected through literature searches on Google Scholar, ScienceDirect, Scopus, and DOAJ, as well as official documents and reports published by Bank Indonesia and relevant government agencies.

Data Analysis Techniques

Data analysis in this study is conducted through literature synthesis and institutional analysis.

Literature synthesis is used to integrate key findings from academic sources and policy reports in order to develop the Technology–Trust–Security (T–T–S) conceptual framework within the context of Smart Digital Finance. This approach enables the systematic identification of patterns, mechanisms, and causal relationships among relevant variables.

Institutional analysis is applied to examine the roles, policies, and governance structures of relevant institutions, particularly monetary authorities, financial regulators, and payment system providers, in supporting the implementation of digital finance in Indonesia. Through this approach, the study evaluates how regulatory frameworks, operational standards, and supervisory mechanisms influence technology, trust, and security within the digital financial ecosystem.

3. RESULTS AND DISCUSSION

Result

Research Findings

Characteristics of Smart Digital Finance in the Financial System

Smart Digital Finance refers to the provision of financial services aimed at improving transaction efficiency, expanding financial inclusion, and strengthening transparency and accountability within the financial system (World Bank, 2014; BIS, 2020). This approach emerged in response to the limitations of conventional, cash-based financial systems that impose high costs and access barriers, particularly for low-income communities and micro-enterprises. In developing countries such as Indonesia, high mobile technology penetration enables Smart Digital Finance to function as a structural solution to integrate informal economic activities into the formal financial system (GSMA, 2019; World Bank, 2020).

Implementation of Smart Digital Finance in Indonesia's Financial Ecosystem

The digitalization of financial services allows providers to serve large user bases without physical branch expansion, improving transaction speed and reducing operational costs (BIS, 2020). Digital transactions also generate economic data that support financial behavior analysis, credit risk assessment, and the development of more inclusive financial products (OECD, 2019).

In Indonesia, the implementation of Smart Digital Finance is reflected in the development of the national QR-based payment system, Quick Response Code Indonesian Standard (QRIS). QRIS enhances interoperability across payment service providers and accelerates the shift from cash to cashless transactions, particularly among micro, small, and medium enterprises (MSMEs). Beyond its payment function, QRIS enables MSMEs to build digital financial records that facilitate access to formal financing and banking services (Bank Indonesia, 2022). This ecosystem is further strengthened by the growth of digital banks offering low-cost, application-based financial services integrated with the national payment system (OJK, 2021).

Technology as the Main Driver of Digital Finance

Digital technology serves as the primary enabler of financial system transformation by expanding access, increasing efficiency, and reducing reliance on physical banking infrastructure. The use of internet connectivity, mobile networks, and interoperable digital payment platforms, such as QRIS, facilitates cross-provider transactions, accelerates non-cash payment adoption, and supports the integration of MSMEs and the informal sector into Indonesia's formal financial system.

Table 1. Transformation of How People Transact and Digital Payment Network Infrastructure.

Transformation of How People Transact

Receiving Payments	Making Payments
Salary	Electricity bills
Remittance	School fees
Government subsidies	Convenience stores/shopping
Digital Payment Network Infrastructure	
Sander/Receiver Side : Bank 1, Payment service providers, Telecom/Fintech	
Associated Institutions : Telecom, Fintech, Bank 2	
Core Hub : Digital payment network	

Beyond expanding access, financial digitalization generates transaction data that are strategically valuable for financial institutions in risk analysis, product development, and the expansion of financing inclusion, particularly for MSMEs. However, increased reliance on technology also heightens operational and system disruption risks, making strong governance and risk management essential to ensure that technology not only drives innovation but also maintains the stability and sustainability of the digital financial ecosystem.

Trust as a Fundamental Factor in Indonesia's Digital Financial System: The Role of QRIS and Digital Banks

Trust is a key determinant of the adoption and sustainability of digital financial systems. The transition from cash-based transactions to digital platforms occurs only when users perceive such systems as secure, reliable, transparent, and more beneficial than conventional mechanisms (OECD, 2019; World Bank, 2020). In developing countries, trust is shaped not only by technological sophistication but also by institutional legitimacy, regulatory clarity, consumer protection, and effective supervision (BIS, 2020).

In Indonesia, QRIS plays a strategic role in building institutional trust in digital payment systems. As a national standard regulated and supervised by Bank Indonesia, QRIS provides legal certainty, system interoperability, and clear transaction mechanisms, thereby reducing payment system fragmentation and transaction risks (Bank Indonesia, 2020). Technological security, data protection, transaction authentication, and transparent, traceable records further reduce perceived risks related to fraud, data breaches, and system failures (OJK, 2021; BIS, 2020).

Trust is also reinforced through user experience. Simple, fast, and low-cost digital financial services are more readily adopted. In Indonesia, MSMEs increasingly trust QRIS due to its proven ability to improve transaction efficiency, reduce reliance on cash, and simplify daily sales recording. Supported by the growth of digital banks offering greater transparency and user control, Indonesia's digital financial ecosystem continues to strengthen public trust (Bank Indonesia, 2022; OJK, 2021).

Security and Risk Management in Digital Finance

As digital finance adoption expands, security and risk management become critical to sustaining the digital financial system. Technological dependence increases exposure to cybersecurity threats, digital fraud, data privacy violations, and operational system failures, all of which may cause financial losses and undermine public trust. Given the high interconnectivity and transaction volumes in digital payment and financial service systems, security risks are systemic in nature, making risk management an integral component of financial system governance rather than merely a technical issue.

Table 2. Security and Risk Management In Digital Finance.

Security and Risk Management		
Risks	Mitigation	Security Principles
Cyber Risk : Cyberattacks, malware, hacking	Secure Authentication & Digital Identity : Two-factor verification, integrated digital identity	Consumer Protection & Transparency
Fraud & Identity Theft : Fraud, phishing, identity theft	Encryption & Tokenization : Protecting transaction data and users	Incident Response & Recovery
Data Privacy Breaches : Data leaks, misuse of personal data	Transaction & Anomaly Monitoring: Early detection and blocking of suspicious activities	Data & Privacy Protection
Operational Risk : System disruptions, operational failures	Supervision & Compliance: Regulatory security standards, continuous supervision	Effective Regulation & Governance

An effective risk management approach requires a balance between system protection and innovation sustainability. Proportionate regulation, robust security standards, continuous supervision, and incident response mechanisms are essential to protect consumers without constraining technological development. At the same time, consumer protection, information transparency, and clear accountability of digital financial service providers, supported by secure and integrated digital identity systems, play a crucial role in preventing identity misuse, enhancing transaction accountability, and maintaining the integrity and inclusiveness of the digital financial ecosystem.

Economic and Government Impacts

Limited access to financing remains a major constraint on the growth of MSMEs in Indonesia. Many MSMEs are underserved by formal banking credit, restricting business expansion, productive investment, and job creation. In this context, digital finance expands financing access by utilizing digital transaction footprints to develop alternative credit scoring models, enabling financial institutions to extend credit to MSMEs without formal banking histories (Evans & Pirchio, 2015). This contributes to higher investment, improved productivity, and more inclusive financial intermediation (Brune et al., 2015).

At the macroeconomic level, improved MSME financing access through digital finance supports financial deepening in Indonesia, which is positively associated with long-term economic growth (IMF, 2015). The digitalization of payment systems such as QRIS reduces transaction costs, enhances operational efficiency, and accelerates money circulation within the economy. As a result, digital finance strengthens both the MSME sector and the effectiveness and stability of the national financial system.

From a governance perspective, digital finance enhances financial transparency and reduces reliance on cash-based transactions that are vulnerable to leakage, corruption, and tax evasion (Rogoff, 2016). The integration of digital financial services with national identity systems and regulatory oversight improves customer verification, mitigates fraud risks, and strengthens compliance with anti-money laundering regulations (World Bank, 2018). Therefore, the implementation of digital finance in Indonesia not only promotes inclusive economic growth but also reinforces financial governance and systemic stability.

Solutions and Discussion

Table 3. Three Required Building Blocks.

THREE REQUIRED BUILDING BLOCKS		
Widespread Digital Infrastructure	Dynamic Financial Services Market	Products People Prefer to Existing Alternatives
Widespread connectivity, robust digital payment infrastructure, and well-disseminated personal identification system	Risk-proportionate regulation promoting stable financial system and open markets fostering innovation	New digital products offering true advantage in cost and utility for people to use them

Broad Digital Infrastructure

Broad digital infrastructure is the foundation of Smart Digital Finance, encompassing widespread digital connectivity, reliable and interoperable payment systems, and accessible digital identity systems. This infrastructure enables efficient delivery of digital financial services without reliance on physical banking networks, reducing transaction costs and expanding formal financial access, particularly for unbanked populations and MSMEs.

In Indonesia, strengthened digital infrastructure, through expanded internet coverage, the implementation of QRIS as a national payment standard, and the integration of digital identity, has accelerated cashless adoption, enhanced user verification, and improved transaction transparency, supporting trust and sustainability in the digital financial ecosystem.

Market Dynamics of Digital Financial Services

Digital financial service market dynamics refer to an ecosystem that supports innovation while maintaining system stability. This is achieved through a balance between risk-based regulation, healthy market competition, and openness to technological innovation.

Proportionate regulation protects consumers and system stability without constraining innovation, while the presence of digital banks, fintech firms, and payment service providers enhances service quality, reduces transaction costs, and broadens financial access. Mechanisms such as regulatory sandboxes and system interoperability enable safe innovation testing, allowing the digital financial market to evolve in an adaptive, stable, and inclusive manner.

Products Preferred over Existing Alternatives

The success of Smart Digital Finance depends on the ability to offer digital financial products that are superior to conventional services and cash transactions. Digital payment products with simple interfaces, low costs, mobile access, small-value transaction flexibility, and 24/7 availability encourage widespread adoption, including among low-income users and those in remote areas (Voorhies et al., 2013).

Integration with official digital identities, strong consumer protection, and security features such as multi-layer verification further enhance user trust. Collaboration among financial institutions, technology firms, and telecommunications operators supports the development of innovative products that extend beyond payments to include savings, microfinance, and digital insurance, offering greater flexibility than conventional services (Evans & Pirchio, 2015).

4. CONCLUSION

This study confirms that Smart Digital Finance plays a strategic role in expanding digital financial inclusion while strengthening financial risk management. Digital technology enables financial services to become more efficient, affordable, and inclusive, particularly for unbanked groups and micro-enterprises, while generating transaction data that support more adaptive financial intermediation.

The effectiveness of Smart Digital Finance depends on the integration of technology as an enabler, user trust, and robust security and risk management. Without strong institutional governance and risk frameworks, digital innovation may face adoption barriers and increase systemic vulnerabilities.

Overall, strengthening digital infrastructure, fostering dynamic digital financial markets, and developing products that are demonstrably superior to conventional alternatives are key prerequisites for a sustainable Smart Digital Finance ecosystem. Through this approach, Smart Digital Finance not only promotes financial inclusion but also contributes to more inclusive economic growth and more transparent financial governance.

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6. APPENDIX

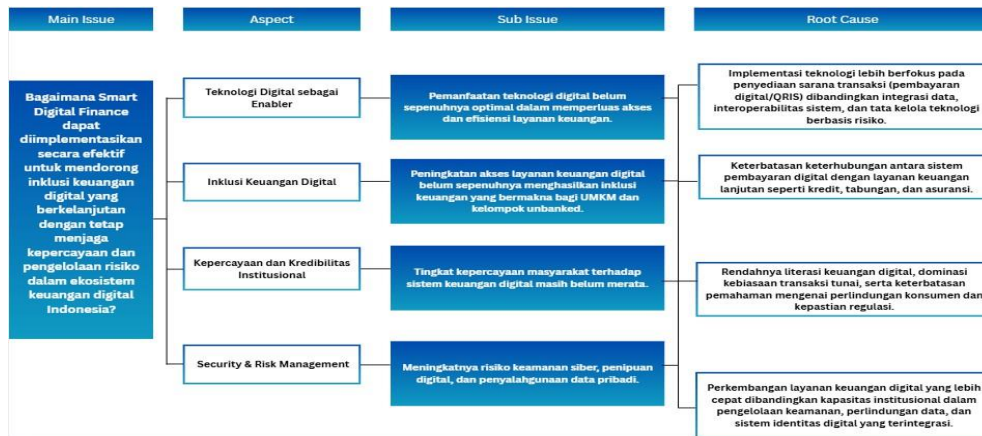


Figure 1. Theoretical Framework

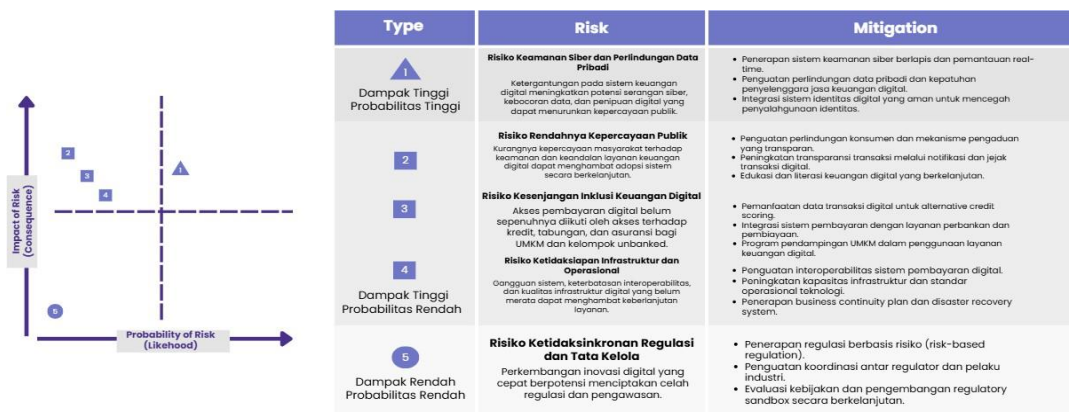


Figure 2. Risk and Mitigation Framework

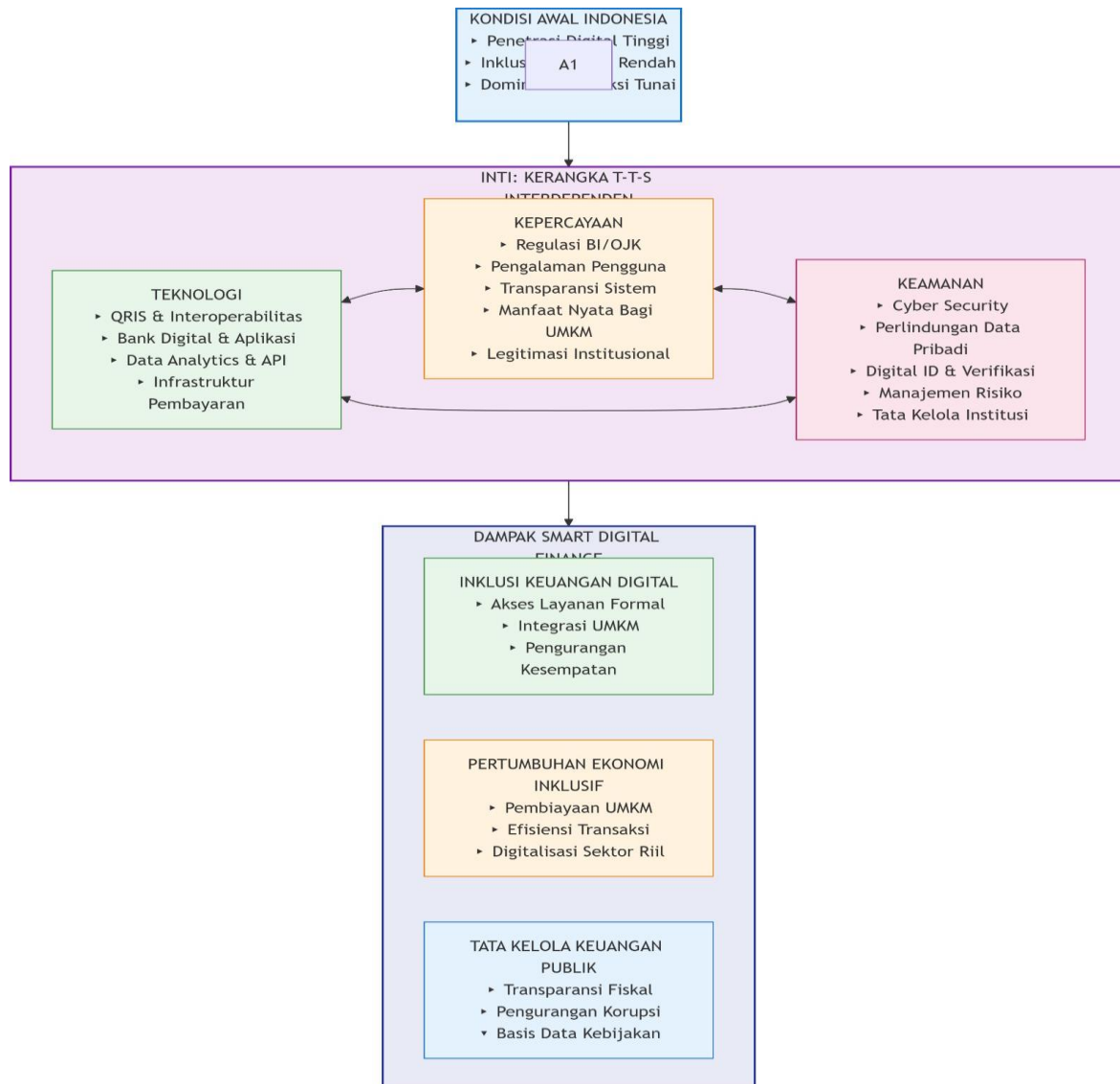


Figure 3. T-T-S Framework