

The Influence of Financial Technology on Banking Financial Stability

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Abstract

The banking industry is so important in the country's economy that it can be said to be the backbone of the economy because it can affect the stability and growth of the economy as a whole. From 2018 through 2022, the Z-Score value of banking businesses listed on Bursa Malaysia and the Indonesia Stock Exchange (IDX) indicates the financial stability of these companies. Banking companies in Indonesia obtained an unstable Z-Score value from 2018 to 2022 and had experienced a decline in 2019. Meanwhile, banks in Malaysia obtained Z-Score values that continued to increase from 2018 to 2022. This can show that Z-Score can be an effective main measure to show the financial stability of banks. This study aims to determine the effect of financial technology (FinTech) on the financial stability of banks listed on the IDX and Bursa Malaysia for the period 2018-2022 using Non-Performing Loan (NPL) as a control variable. Using a sample of 38 banking companies listed on the IDX and 21 banking companies listed on Bursa Malaysia, this study was analyzed using multiple regression analysis. The findings show that FinTech companies, bank size, bank type, and bank corporate governance level significantly affect the soundness of Malaysian and Indonesian banks.

Keywords: Bank Size, Corporate Governance, Financial Sector, Financial Stability, Indonesia, Malaysia, Technology, Type of Bank.

INTRODUCTION

In the current 4.0 era, science and technology in the world are familiar to people including in Indonesia and Malaysia. Technological developments continue to increase from time to time. Advances in information technology are noticeable in every industry, one of which is the financial sector (Santoso et al., 2021). In the first quarter of 2022, the combined market value of the world's 100 largest banks hit 6.1 trillion USD, placing the financial sector among the world's most valuable industries (Alamsyah & Syahrir, 2023).. The development of digital technology in Indonesia and Malaysia has great potential, followed by the continued growth of internet users in both countries. (Annur, 2023). *FinTech* creates competition among banks but can cover a wider range of customers and offer financial services that are easily accessible and at a low cost. Thus, banks need to adopt *FinTech* as part of bank services to help banking operations efficiently and maintain profitability in order to maintain the financial stability of the banking system. (Safiullah & Paramati, 2022).

Financial stability can be seen from financial statements through financial ratios, one of which is by looking at the *Return on Assets* (ROA) of banks in order to ascertain the profitability of the bank and factors such as non-performing financing and the quality of productive assets that affect its value. (Haliza et al., 2021). Measurement of financial stability using ROA has been widely used in earlier investigations, for example, studies undertaken by Avlokulov (2018), Affandi et al. (2023), Santosa et al. (2022), Antwi & Kwakye (2022), and Kayakus et al. (2023). However, the measurement of financial stability is more relevant using the *Z-Score* commonly used in the financial literature (Fung et al., 2020). The *Z-Score* is a determinant of financial stability that has a high value of banking assets. The average *Z-Score* from 2018 to 2022 describes banks that are part of the IDX and their financial health and Bursa Malaysia. The total number of banking companies listed on the IDX from 2018 to 2022 is 41 companies and Bursa Malaysia is 35 companies. Although there are more banks in Indonesia compared to Malaysian banks, the average *Z-Score* value of Malaysian banks is actually higher than Indonesian banks, which can be seen that Indonesia experienced a decline in 2019. While the *Z-Score* value in Malaysian banks continues to increase from 2018 to 2022. This can show that *Z-Score* can be an effective primary measure to indicate the financial stability of banks. (Avlokulov, 2018). There have been

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many studies of *FinTech* on financial stability with inconsistent results. Most of the previous studies used regression analysis to test the hypothesis of their research such as in the study of Hussaini (2019). Hussaini (2019), Nguyen & Dang (2022), Safiullah & Paramati (2022), Nasri et al. (2023), Yudaruddin et al. (2023), and Cevik (2024).

The purpose of this study is to determine how much influence *FinTech* has on banking financial stability for the 2018-2022 period. The expected result of this research is that it can contribute useful insights to knowledge about *FinTech* and elements that can affect banking financial stability. Furthermore, businesses can also expect to reap benefits from this study's findings, investors, and government regulations in maintaining banking financial stability.

LITERATURE REVIEW AND HYPOTHESIS

Financial stability is critical for commercial banks to meet their obligations, maintain profitability, minimize risk, and ensure purposeful growth in a competitive environment. (Fedyshyn & Chebotar, 2023).. The condition of banking financial stability is an indicator used to see whether the company's finances are stable or not (Labib & Lila, 2023). (Labib & Lila, 2023).. Financial stability is the ability to manage risk, absorb shocks, and facilitate and improve economic operations. (Schinasi, 2004). According to Stanciu (2019) in order to keep the macroeconomy stable and balanced, financial stability is crucial. In addition, *financial stability* is one of the main indicators of the company's financial efficiency, which reflects the company's ability to fulfill its obligations and maintain its solvency when facing internal and external challenges. (Nikolchuk et al., 2023).. Financial stability is also defined as the condition that economic mechanisms in pricing, risk management, and fund allocation work well and encourage economic growth. (OJK, 2024). Therefore, the condition of banking financial stability in both Indonesia and Malaysia can be a signal to stakeholders, both investors and creditors, regarding the company's financial condition.

Signaling theory is a theory that companies can use to convey the current conditions that occur. Signaling theory has a relationship between *FinTech* and financial stability to convey signals about the state of the company to external parties. (Mahaningrum & Merkusiwati, 2020).. Companies that have adopted *FinTech* and influence the company's financial stability for the better, then this information can be good news for investors. The results of the application of *FinTech* to financial stability can show an early signal of when making decisions on the company's finances (Wu et al., 2022). (Wu et al., 2022).

Several studies have been conducted to find out how *FinTech* corporations have an effect on the soundness of banks' finances. In Indonesia, this research has been conducted by Marlina (2020) by using the variables of Operating Costs to Operating Income (BOPO) and *Net Interest Margin* (NIM). In addition, Nasri et al. (2023) also examines the topic of financial stability using several variables including ROA, Bank size, *Loan to deposit Ratio* (LDR), and *Capital Adequacy Ratio* (CAR). Saraswati & Tisnawati (2021) also conducted research using inflation, macroeconomic variables, banking health conditions, and *FinTech* companies. Not only in Indonesia, this research was also conducted in various countries such as Malaysia by Safiullah & Paramati (2022) using variables of bank size, bank type, and corporate governance. Then in Italy by Ferilli et al. (2024) using bank size, bank age, *Return on Asset* (ROA), *Probability of Default* (PD), *FinTech Leverage*, *FinTech Turnover*, *FinTech Age*, and overall corporate governance to determine the improvement of financial stability and reduce *FinTech* risk. Research in Hong Kong was also conducted by Fung et al. (2020) which states that financial stability weakens in developed financial markets and increases in emerging markets. Asset growth, ROA, book value ratio, deposits to total assets, *income diversity*, *leverage* are variables to test the impact of *FinTech* on financial stability. From the many previous studies that have been conducted, it can be seen that various variables are used to see the effect of *FinTech* companies on the financial stability of banks with inconsistent results.

Financial technology (FinTech) is an emerging topic in the world for all business fields. FinTech is the fusion of financial services and technology that has transformed the traditional business model, which previously required in-person transactions and cash handling, into a more flexible model. However, payment transactions can now be done remotely in just a matter of seconds. (BI, 2020). *FinTech* deals with financial institutions that employ technological solutions, especially related to the internet as a medium, to provide new

goods and services, and to develop. *FinTech* is a topic that combines finance, technology management, and innovation management. (Alamsyah & Syahrir, 2023). With *FinTech*, any innovative idea can be improved through the financial service process by proposing technological solutions according to different business situations. (Broby, 2021). FinTech companies can be evaluated by comparing the total number of FinTech companies connected to but distinct from the banking sector to assess their impact on financial stability. According to the findings of the study conducted by Safiullah & Paramati (2022) and Yударuddin et al. (2023) said that *FinTech* companies have a positive effect on banking financial stability. The increase in *FinTech* companies over time and linkages with banks have a good influence so as to increase financial stability.

Bank size is the size of the bank which can affect the company's capacity to endure and manage risks that may develop as a result of different circumstances encountered by the organization in relation to its activities. (Mondayri et al., 2021). According to Amanda & Tasman (2019) Company size is a description of how much total assets belong to the company which is an added value for interested parties such as creditors and investors, because creditors and investors do not hesitate to provide loans and invest in the company. The larger the size of the company, the more assets it has, both fixed assets and current assets. The greater the company's current assets, the company is able to pay off its short-term debt appropriately so as to minimize the occurrence of *financial distress* and maintain its financial stability. Bank size is divided into two groups, namely large and small. Banks with total assets of more than 14 trillion rupiah up to 70 trillion rupiah are considered large banks and banks with total assets between 6 trillion rupiah and 14 trillion rupiah are considered small banks. (OJK, 2021). According to Safiullah & Paramati (2022) According to Safiullah & Paramati (2022), bank size is significant to the financial stability of banks. However, there is another study by Nasri et al. (2023) using bank size as a variable and has different results, namely bank size has no influence on bank financial stability.

Bank type is the classification of banks based on criteria such as ownership structure, operational scope, or focus on certain types of services. Banks based on the type of service can be categorized into conventional banks and Islamic banks. Conventional banks refers to banks that conduct business conventionally and provide services in payment traffic. (Jahja & Iqbal, 2012).. According to Pratomo (2017) Conventional banking focuses on an intermediary function based on interest rates in financial management. Islamic Sharia law does not govern the financial dealings of conventional banks, which use an interest-based system to reward customers for their savings and loans. According to Salman & Nawaz (2018), Due to their lack of interest, Islamic banks are distinct from their conventional counterparts. Islamic banks are interest and risk-free banks in financial contracts that are distributed fairly and use financial agreements including gains and losses, like *Musharakah* and *Mudharabah*. (Alam et al., 2019). Based on research that is conducted by Safiullah & Paramati (2022) stated that the type of bank has a positive effect on banking financial stability. Supported by research from Yударuddin et al. (2023) which also proves that bank type has an influence on bank financial stability.

An important component in enhancing a company's economy is the degree of corporate governance. The company's management, shareholders, and board of commissioners are all intricately linked. (Fathonah, 2018). Corporate governance has a direct impact on how efficiently a bank operates, with smaller board sizes and higher shareholding ratios consistently resulting in better performance. (Agnihotri & Gupta, 2019).. The size of the corporate governance mechanism can be seen from *board size*, *board independence*, *audit committee size*, *CEO duality* and *risk management committee size* which influence how well the business does financially so that it can affect financial stability. (Fanta, 2013) & (Belhaj & Mateus, 2016). Inefficient banking corporate governance arrangements can jeopardize financial stability. (Bodellini, 2018). Therefore, any form of banking corporate governance is critical to financial stability. The measurement of banking corporate governance is in line with research in Egypt which states that *board size*, *board meetings*, and *board gender* have an influence on financial stability. (Marie et al., 2021). In addition, research in Malaysia by Lassoued (2018) said that Islamic banks in Malaysia are affected by their level of financial soundness by the percentage of independent directors on their board of directors. Additionally, studies on the effects of bank corporate governance on financial stability were carried out by Thoha et al. (2022), Karkowska & Acedański (2020), and Gaganis et al. (2020).

This paper provides an overview of how *FinTech* has affected the financial stability of banks listed on the IDX and Bursa Malaysia, based on the phenomena previously stated. By utilizing *FinTech* in banking operations, it can increase the financial stability of banks. In addition, with the proper utilization of *FinTech*, it can increase the bank's ability to provide financing which leads to an increase in the availability of bank loans so that it can have a significant effect on the bank's financial stability. Therefore, the hypotheses proposed in this study are:

H₁ : *Financial Technology (FinTech)* companies, bank size, bank type, and the level of corporate governance with *Non Performing Loan (NPL)* as a control variable simultaneously affect the financial stability of banks.

H₂ : *Financial Technology (FinTech)* companies have a significant effect on banking financial stability.

H₃ : Bank size has a significant effect on banking financial stability.

H₄ : Bank type has a significant effect on banking financial stability.

H₅ : The level of corporate governance of banks significantly affects the financial stability of banks.

METHOD

This research uses quantitative research methods. According to Cooper & Schindler (2014) quantitative research method is a method that focuses on describing but can also predict a study. This study was conducted in order to learn how *FinTech* firms impact banks' capacity to stay afloat financially. on the IDX and Bursa Malaysia. Based on its objectives, descriptive research encompasses this study. The study's variables are classified according to their relationships with the dependent and independent variables. The study's dependent variable is the stability of banks' finances. Measurement of financial stability can be done using *Z-Score*. The *Z-Score* model used is different from the *financial distress* prediction model (*Altman Z-Score*) because the model is not used for financial services companies, both private and government. Measuring financial stability with *Z-Score* is commonly used in the banking literature (Fung et al., 2020). There are several independent variables in this study, namely *financial technology*, bank size, bank type, and bank corporate governance.

Financial institutions that were listed on the IDX and Bursa Malaysia between 2018 and 2022 make up the study's population. From 2018 to 2022, the IDX will have 41 banking companies listed, while Bursa Malaysia will have 35. Methods for selecting participants in this study included *purposive sampling* technique. Researcher employs this research technique because not all banking businesses with a Malaysian stock listing on Bursa Malaysia and the IDX are suitable for use as research samples. This is because the criteria needed for the research process and the acquisition of information are not met. Therefore, the criteria for sampling in this study are banking companies listed on the Indonesia Stock Exchange (IDX) and Bursa Malaysia and consistently report annual reports during the 2018-2022 period. Thus, 59 businesses were found that fulfilled the requirements. There are 38 banking companies that meet the criteria in Indonesia and 21 companies in Malaysia.

The data analysis techniques employed in research encompass descriptive statistical analysis methods. Descriptive analysis is a statistical tool used to examine data by describing the collected information as it is, without aiming to draw conclusions that can be applied universally or make generalizations. The goal of descriptive research is to provide a detailed picture of the persons studied, events or situations, to obtain an accurate profile descriptive research questions include who, what, where, when, and how questions. (Saunders et al., 2016).

The classical assumption run a test to find out if the regression model that was in the study shows a significant relationship. In this study, there are three tests carried out in the classic hypothesis test, including tests for multicollinearity and normality, and heteroscedasticity test. Furthermore, hypothesis testing is carried out to find temporary answers to research objectives derived from the framework that has been made, as well as temporary conjectures from the formulation of research problems. A combination of simultaneous and partial testing is used to verify the presented hypotheses. To test the proposed hypotheses, it is necessary to carry out regression analysis on multiple regression models through the F test and t test and conduct determination testing. The equation model is described as follows.

$$FS_{i,t} = \alpha + \beta_1 Fintech_1 + \beta_2 Bank\ Size_2 + \beta_3 Jenis\ Bank_3 + \beta_4 Ukuran\ Komite\ Audit_4 + e_{i,t}$$

Description:

FS = Financial Stability

α = Constant

$\beta_1, \beta_2, \beta_3$ = Regression Coefficient

FinTech = Number of companies related and unrelated to banking

Bank Size = Ln (Total Assets)

Bank Type= Islamic banks and conventional banks

Bank governance = Audit Committee Size

t = research time

e = Standard error

Using regression analysis, one may evaluate the partial and simultaneous effects factors that are independent of the dependent variable and determine the extent to which these factors influence the dependent variable. To find out if the independent factors all have a substantial impact on the dependent variable at the same time, simultaneous hypothesis testing (F test) is utilized. This may be observed through the *Omnibus test of the coefficient model test*. Also, to find out how much each independent variable contributes to explaining the dependent variable and to prove that at least some of the independent variables have a significant effect on the dependent variable, researchers use partial hypothesis testing, also known as a t test (Ghozali, 2018). The multiple coefficient of determination is another measure of the model's ability to explain the variation in the dependent variable. In the interval from 0 to 1, we find the coefficient of determination ($0 < R^2 < 1$).

RESULTS

Descriptive statistics show that the financial stability variable measured by *Z-Score* has an average value of 11.6762 in Indonesia and 16.0131 in Malaysia. The test results of the two countries exceed the standard deviation value of 9.6219 in Indonesia and 10.2574 in Malaysia.

Table 1. Descriptive Statistical Analysis

Banking	Indonesia	Malaysia
	Total	
<i>FinTech</i>	26	5
<i>Non FinTech</i>	12	16
Sharia and Conventional	33	8
Sharia	3	3
Conventional	2	10

Source: Data processed by the author

Table 2. Descriptive Statistical Analysis

Descriptive Statistics	Indonesia			Malaysia		
	Bank Size	Banking Governance	Bank Financial Stability	Bank Size	Banking Governance	Bank Financial Stability
<i>Minimum</i>	19.694.280	3	1,18	447.637	3	4,36
<i>Maximum</i>	16.583.990.927.531	8	70,30	666.721.225	8	52,07
Average (<i>Mean</i>)	1.356.714.226.866	3,85	11,67	120.065.456	4,15	16,01
Standard Deviation	3.186.989.313.232	1,18	9,62	165.664.194	1,11	10,25

Source: Data processed by the author

Table 3. Statistical Testing Results

Variable	Indonesia				Malaysia			
	Coefficient	Std. Error	t-Statistic	Prob.	Coefficient	Std. Error	t-Statistic	Prob.
C	-7,2404	2,7821	-2,6024	0,0100	-9,1637	2,0043	-4,5719	0,0000
X ₁	1,8162	0,9626	1,8866	0,0608	-0,1242	1,7222	-0,0721	0,9426
X ₂	7,04E-13*	1,87E-13*	3,7746	0,0002	3,10E-08*	4,46E-09*	6,9644	0,0000
X ₃	-0,6102	0,7995	-0,7633	0,4462	2,6128	0,7866	3,3216	0,0013
X ₄	4,8648	0,4824	10,0844	0,0000	3,7645	0,4211	8,9391	0,0000
Coefficient of Determination (R) ²								
AR	0,6511				0,8663			

*7.04E-13 = 0.000000000000704, 1.87E-13 = 0.000000000000187, 3.10E-08 = 0.0000000310, 4.46E-09 = 0.00000000446

Source: Data processed by the author

Table 1 illustrates the descriptive analysis of banks categorized by *FinTech* and *Non FinTech* as well as grouping by type of Islamic and conventional banks with NPL as the control variable.

Based on table 2, it can be seen that banking financial stability (Y) in banks in Indonesia through a total of 295 data has an average (*mean*) of 11.6762 and a standard deviation value of 9.6219. While banking financial stability (Y) in Malaysia has an average of 16.0131 and a standard deviation value of 10.2574.

The bank size variable in Indonesia has an average value of 1,356,714,226,866 with the smallest value of 19,694,280 and the largest value of 16,583,990,927,531. While the standard deviation is 3,186,989,313,232. The standard deviation is greater than the average value, so it is stated that the processed data varies or is relatively heterogeneous. The bank size variable in Malaysia has an average value of 120,065,456 with the smallest value of 447,637 and the largest value of 666,721,225. While the standard deviation is 165,664,194. The standard deviation is smaller than the average value, so it is stated that the data processed does not vary or is relatively homogeneous.

The range of values for the banking governance variable in Indonesia is from 3 to 8, with an average value of 3.8526. A number of 1.1861 is the standard deviation. Since the processed data has a smaller standard deviation than average, it can be concluded that the data is either very consistent or does not vary much. The range of values for banking governance in Malaysia is from 3 to 8, with an average score of 4.1523. There is a 1.1161 standard deviation. Since the standard deviation is less than the average, we can say that the processed data is either very consistent or does not vary much.

Based on the output results in table 3, the form of the banking regression equation in Indonesia is obtained as follows:

$$Y = -7,2404 + 2,0326X_1 + 7,35E - 13X_2 + 1,0327X_3 + 4,8648X_4$$

Using the equation for multiple linear regression, an explanation can be obtained that the constant value is -7.2404. The average value of Financial Stability would be -7.2404 if the three independent variables *FinTech*, Bank Size, Bank Type, and Banking Governance Level—had no effect on it. The regression coefficient for the independent variable X₁, namely *FinTech*, indicates a unidirectional relationship between *FinTech* and Financial Stability. The independent variable's regression coefficient X₁ of 1.8162 indicates that as the amount in *FinTech* by one unit, it will cause an increase in Financial Stability by 1.8162. The independent variable's regression coefficient X₂, namely Bank Size, indicates a unidirectional relationship associations between the size of a bank and its stability. The independent variable's regression coefficient X₂ of 7.04E-13 results in a 7.04E-13 rise in financial stability for every one-unit increase in bank size. The independent variable's regression coefficient X₃, specifically Bank Type demonstrates that the relationship between Bank Type and Financial Stability is unidirectional. A regression's beta for the independent variable X₃ of 0.6102 indicates that as the amount in the Type of Bank by one unit, it will cause a decrease in Financial Stability by 0.6102.

Additionally, the independent variable's regression coefficient X_4 , namely the Level of Banking Governance, proves that the level of banking governance has a direct correlation with financial stability. The regression coefficient of variable X_4 of 4.8648 indicates that as the amount in the Level of Banking Governance by one unit, it will cause an increase in Financial Stability by 4.8648.

In addition, the output results in table 3 also obtained the following form of banking regression equation in Malaysia:

$$Y = -9,1637 - 0,1242X_1 + 3,10E - 08X_2 + 2,6128X_3 + 3,7645X_4$$

The constant value of -9.1637 is explained by the multiple linear regression equation. This indicates that the average value of Financial Stability is -9.1637, assuming that *FinTech*, Bank Size, Bank Type, and Banking Governance Level do not impact the Financial Stability variable. The independent variable's regression coefficient X_1 , namely *FinTech*, shows that there is an unidirectional correlation between Financial Technology and Soundness of the Market. With a regression coefficient of 0.1242, we can see that for every one-unit increase in *FinTech*, Financial Stability decreases by 0.1242. The regression coefficient for the independent variable X_2 , namely Bank Size, indicates a unidirectional relationship between Bank Size and Financial Stability. The independent variable's regression coefficient X_2 of 3.10E-08 means that for every increase in Bank Size by one unit, it will cause an increase in Financial Stability by 3.10E-08. The regression coefficient for the independent variable X_3 , namely Bank Type, demonstrates that the relationship between financial stability and the type of bank is unidirectional. The regression coefficient for the independent variable X_3 of 2.6128 means that for every increase in the Type of Bank by one unit, it will cause an increase in Financial Stability by 2.6128. Additionally, the independent variable's regression coefficient X_4 , namely the Level of Banking Governance, shows that there is a unidirectional relationship between the Level of Banking Governance and Financial Stability. The regression coefficient of variable X_4 of 3.7645 means that for every increase in the Level of Banking Governance by one unit, it will cause an increase in Financial Stability by 3.7645.

The coefficient of determination (R^2) overarchingly assesses the extent to which an independent variable can explain the dependent variable in order to ascertain the extent to which the independent variables impact the dependent variable, namely *Financial Technology (FinTech)* companies, bank size, bank type, and level of corporate governance on financial stability Banking. Based on table 3 shows that the results of the calculation of the coefficient of determination test on banking in Indonesia have an *Adjusted R-squared* value of 0.6511 or 65.11%. Thus, 65.11 percent of the variation in Indonesia's banking sector's financial stability is attributable to factors including *FinTech* firms, bank size, bank type, and corporate governance level. This means that the remaining 34.89% is an influence other than *FinTech* companies, bank size, bank type, and level of corporate governance. In addition, table 3 also shows that the output results on banking in Malaysia have an *Adjusted R-squared* value of 0.8663 or 86.63%. This means that *FinTech* companies, bank's size, kind of bank, and degree of corporate oversight have an effect of 86.63% on the financial stability of banking in Malaysia. This means that the remaining 13.37% is an influence other than *FinTech* companies, bank size, category of bank, and degree of board oversight

DISCUSSION

Simultaneous testing on banks in Indonesia, states the results that *FinTech* companies, bank size, bank type, and the level of corporate governance simultaneously affect the financial stability of banks in Indonesia with *Non Performing Loan (NPL)* as the control variable. Then, in banking in Malaysia, the results state that *FinTech* companies, bank's size, kind of bank, and degree of corporate oversight simultaneously impact the soundness of Malaysian banks. Thus, simultaneously *FinTech* companies, bank size, bank type, and the level of corporate governance have a significant effect both in banking in Indonesia and in Malaysia. *FinTech* companies, bank's size, kind of bank, and degree of corporate oversight have an effect of 86.63% about the soundness of Indonesian banks. This means that the remaining 13.37% is an influence other than *FinTech* companies, size, kind, and degree of corporate control of the bank.

A partial test conducted on banks in Indonesia indicated in the financial technology industry no partial influence on the soundness of banks' finances in Indonesia. Similarly, a test conducted on banking in Malaysia yielded the result that the financial soundness of Malaysian banks is unaffected by FinTech enterprises. Thus, it is reasonable to assume that FinTech companies do not significantly affect the stability of the banking sectors in Malaysia and Indonesia.

FinTech is information technology that has the ability to transform the banking industry by offering new alternatives to improve efficiency and service quality. *FinTech* companies can be measured by comparing the total number of *FinTech* companies that are closely related and not related to the banking industry to see its effect on financial stability. The results stated that *FinTech* has no significant effect on financial stability. The results of the study are not in line with research conducted by Safiullah & Paramati (2022) and Yudaruddin et al. (2023) said that *FinTech* companies have a positive effect on banking financial stability. The increase in *FinTech* companies over time and linkages with banks have a good influence so as to increase financial stability.

The partial testing conducted on banking in Indonesia indicates that the size of the bank partially affects stability of Indonesian banks' finances. Similarly, the results from banking in Malaysia suggest that the size of the bank has a partial effect on the financial stability of banks in Malaysia. Consequently, it can be inferred that FinTech companies have far-reaching consequences for the soundness of the banking systems in Malaysia and Indonesia.

One factor that can influence a company's capacity to deal with and weather potential risks associated with its operations is the size of the bank. Bank size can be measured by natural logarithm (total assets). A larger company is one with larger assets, sales, and market capitalization. The results state that *FinTech* has a significant influence on financial stability. The results of the study are in line with research conducted by Nasri et al. (2023) which shows that bank size has a negative effect on banking financial stability. Research Safiullah & Paramati (2022) also supports these results by showing that bank size has an influence on bank financial stability.

Partial testing on banking in Indonesia, states the result that the Type of Bank has no partial effect on the financial stability of banking in Indonesia. However, in banking in Malaysia, the results state that the Type of Bank has a partial effect on the financial stability of banking in Malaysia. Thus, partially the Type of Bank has no significant effect on financial stability in banking in Indonesia but has a partial effect in Malaysia.

Bank type is the classification of banks based on several criteria. Banks are categorized into traditional banks and Islamic financial institutions, categorizing them according to the services they offer. Conventional banks focus on financial intermediation using interest-based financial management practices, while Islamic banks operate according to Islamic sharia and do not involve interest. Islamic banks use financial agreements including gains and losses, like Musharakah and Mudarabah. The results stated that the type of bank has no significant effect on financial stability. The results of the study are not in line with research conducted by Safiullah & Paramati (2022) states that the type of bank has a positive effect on banking financial stability.

Partial testing on banks in Indonesia, states the result that the level of corporate governance partially affects the financial stability of banks in Indonesia. Then, in banking in Malaysia, the results state that the level of corporate governance partially affects the financial stability of banking in Malaysia. Thus, partially the level of corporate governance has a significant effect on financial stability both in banking in Indonesia and in Malaysia.

The enhancement of a company's economy is strongly linked to the level of corporate governance, involving interrelated relationships among company management, the board of commissioners, and company shareholders. Bank efficiency is closely related to corporate governance, with smaller board sizes and higher share ownership ratios consistently resulting in better performance. The results state that the level of corporate governance has a significant influence on financial stability. The study's findings are consistent with those of other studies done by Safiullah & Paramati (2022) stated that bank corporate governance has a positive effect on banking financial stability.

CONCLUSION

Based on the results of descriptive analysis, there are 26 out of 38 banking companies in Indonesia that include *FinTech*. While out of 21 banking companies in Malaysia that became the research sample, there are 5 banking companies that include *FinTech*. Simultaneous testing shows that *FinTech* companies, bank size, bank type, and the level of banking corporate governance with *Non Performing Loan* (NPL) as a control variable Indonesian and Malaysian banks' financial soundness is profoundly impacted. Partial testing shows that *FinTech* companies have little to no impact on the soundness of Indonesian and Malaysian banks. Meanwhile, bank size and the level of banking corporate governance have a significant effect on bank financial stability in both Indonesia and Malaysia. In addition, partial testing of bank type has no bearing on the financial soundness of Indonesian banks, whereas in Malaysia, the kind of bank matters greatly.

The results provide input to banking companies both in Indonesia and in Malaysia to improve financial performance and improve the quality of the company in the application of appropriate *FinTech* and satisfactory results in order to attract the attention of investors. In addition, consideration of financial stability should always be a concern in order to be maintained. Investors are also expected to study financial results and disclosures of the firm before making an investment. Good companies have good quality financial performance and can be seen from large total assets but have small total debt. As well as for regulators / governments to improve the financial security system after the use of *FinTech* in banking companies. This is done in order to maintain financial stability to remain in a stable condition. For future research, it can be retested as in this study but by comparing the results of various countries how much influence *FinTech* has on financial stability in banking.

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