

ABSTRACT

This study aims to examine the impact of digital banking adoption on the profitability and financial stability of Indonesian banks during the COVID-19 pandemic. The primary focus includes internet banking transactions, fee-based income, digital assets, and investment in digital assets. Despite the continuous growth of digital banking adoption in Indonesia, its effect on bank performance remains inconclusive.

A quantitative approach employing panel data regression design was utilized. Secondary data were obtained from the annual reports of banks listed in Indonesia for the period of 2020–2022. The variables analyzed consist of internet banking transactions, fee-based income, digital assets, and digital investment, with Return on Assets (ROA) and the Z-Score serving as indicators of financial stability.

The empirical findings indicate that internet banking transactions have a significant but negative effect on ROA. Fee-based income, however, does not significantly influence either ROA or the Z-Score. Conversely, investment in digital assets exhibits a positive impact on the Z-Score. These findings underscore the importance of enhancing investment in digital infrastructure to reinforce the financial stability of banks. While digital banking holds potential for revenue growth, banks must effectively manage operational costs and digital risks to ensure long-term improvements in profitability and financial stability.

Keywords: *Digital Banking, ROA, Z-score, Digital assets, Investment*

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