

Digital Transformation Of Islamic Banking In Indonesia: Opportunities And Challenges In The Modern Islamic Economy

Nanda Ega Rupita¹, Rozi Andrini²

¹² Sultan Syarif Kasim State Islamic University, Riau

*Corresponding author

22290324342@students.uin-suska.ac.id

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Abstract

Digital transformation has become a key driver in the evolution of the global financial industry, including Indonesia's Islamic banking sector. This research aims to explore the major opportunities and challenges of digital transformation within Indonesia's Islamic banking system and proposes strategic recommendations grounded in the principles of *maqasid al-shariah*. Using a qualitative-descriptive approach through library research and content analysis of academic literature, policy documents, and Islamic financial data, the study finds that digitalization enhances service efficiency, broadens customer access, optimizes digital zakat and waqf management, and accelerates microfinance distribution. Nevertheless, several challenges persist, including limited technological infrastructure, low levels of digital and Islamic financial literacy, a shortage of skilled professionals combining tech and *fiqh* knowledge, and the absence of comprehensive digital shariah regulations. Moreover, the risk of shariah non-compliance—particularly in blockchain and smart contract applications—requires serious attention. To address these issues, the study recommends integrating Islamic values in technological design, strengthening the digital-shariah regulatory ecosystem, and improving stakeholder collaboration and literacy. Thus, digital transformation in Islamic banking is not merely a technical innovation but a value-driven process to build an inclusive, just, and sustainable Islamic financial system.

Keywords: Islamic Banking, Digital Transformation, *Maqasid al-Shariah*, Islamic Economy, Shariah Compliance



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INTRODUCTION

The development of digital technology has brought a transformative impact in various sectors of life, including the financial services sector. The digital revolution marked by the adoption of technologies such as digital banking, Artificial intelligence (AI), big data, and blockchain has fundamentally changed the way the global banking industry works. Financial institutions are now required to optimize services that are not only efficient and responsive, but also able to answer the demands of a digital society that requires fast, flexible, and personalized access. Digitization has driven a paradigm shift from physical-based services to all-digital, integrated services, creating a new, highly dynamic competitive landscape (Trimulyana 2024).

In this context, Islamic banking in Indonesia faces a double challenge: on the one hand, it must be able to keep up with the rapid pace of digital innovation, and on the other hand, maintain the principles of Sharia that form the basis of its operations. Indonesia as the country with the largest Muslim population in the world holds great potential in the development of the Islamic financial sector. However, reality shows that the market share of Islamic banking is still relatively small, which is only about 7% of total national banking assets (OJK 2023). This fact reflects the still low level of Islamic financial inclusion and not optimal penetration of Islamic banking to various levels of society, especially in remote areas and less developed digitally.

Digital transformation is one of the key strategies that is believed to be an accelerator for the strengthening of Islamic banking in Indonesia. Through digitalization, Islamic banks have the opportunity to expand access to services, improve operational efficiency, and strengthen transparency and accountability in Islamic fund governance. Moreover, digitalization allows

optimizing the distribution and management of Islamic social funds such as zakat, Infaq, Sadaqah, and Waqf (ZISWAF), thus encouraging the achievement of maqasid al-shariah, especially in the aspect of social justice and welfare of the people (Nur Aisyah Indarningsih, Ma'wa, and Muh. Noval Waliyuddinsyah 2023).

However, the digital transformation in Islamic banking cannot be separated from a number of serious challenges. Among them are the limitations of technological infrastructure, especially in rural areas; low digital literacy and Sharia financial literacy among the community; and the lack of human resources who have dual expertise in the field of Information Technology and jurisprudence muamalah. In addition, the lack of specific regulations on the digitalization of Islamic banking creates legal uncertainty that can hinder innovation. Another challenge that is no less important is the risk of sharia non-compliance (shariah non-compliance risk), especially in the use of technology such as smart contracts and blockchain applications, which if not studied in jurisprudence, can contain elements of gharar, riba, or maisir (Sudarmanto et al. 2024).

This phenomenon indicates the urgent need to devise a digital transformation strategy that not only promotes technological efficiency, but also ensures compliance with the principles of maqasid al-shariah. In other words, digital transformation should be interpreted as a process of value reconstruction, not simply the adoption of technology. Islamic banking is required to develop innovations that maintain the integrity of Islamic ethics, avoid exploitation, and be able to build an inclusive, fair, and sustainable financial system.

The urgency of this study is rooted in the inequality between the vast potential of the Islamic financial sector and its actual realization in the digital

era, where Islamic banking has not been able to compete optimally with conventional banking in terms of digital services. On the other hand, the magnitude of digitalization opportunities in accelerating inclusion and economic empowerment of the people has not been fully utilized due to the limitations of regulatory structures, technological infrastructure, and synergies between stakeholders. Therefore, this study is important to fill the void of studies that integrate the Maqasid al-shariah approach conceptually in the process of digital transformation of Islamic banking in Indonesia.

From this background, the purpose of this study is to identify and critically analyze the various opportunities and challenges faced by Islamic banking in the process of digitalization. This study also aims to formulate a solution strategy based on maqasid al-shariah, so that digital transformation can run effectively, ethically, and sustainably. The authors hope that the results of this study can contribute conceptually and practically to the development of Islamic banking that is adaptive to digital technology, but still rests on a strong Islamic normative Foundation.

METHOD

This study uses a qualitative approach with descriptive methods (Zaini et al. 2023). This approach aims to provide a systematic and in-depth overview of the phenomenon of digital transformation in Islamic banking in Indonesia. This method is considered appropriate because it is able to reveal the social dynamics, meaning, and complexity of the implementation of digitization without intervening on the variables studied. Qualitative research enables contextual understanding of ongoing social realities, especially in the context of value-laden Islamic economics.

The method used is Library research (Panudju and Kalalinggi 2024), namely by examining various relevant secondary sources. These sources

include national and international scientific journals (Scopus and SINTA), annual reports from OJK and Bank Indonesia, Islamic economics textbooks, and media articles discussing digital transformation in Islamic banking. Literature study allows analysis of conceptual discourse and empirical practice in a comprehensive manner, without conducting direct collection of field data.

The Data used are secondary, obtained from official documents and scientific publications. The data source consists of: Scientific journal (Scopus, SINTA), OJK annual report and statistics for 2023, Contemporary Islamic Economic Literature, News articles and press releases from Islamic banking institutions in Indonesia

The analysis technique used is content analysis, which is a method to identify, classify, and evaluate the main themes in the literature under study. Themes analyzed include: (1) strategic opportunities of digital transformation, (2) Challenges in the implementation of digital technology, and (3) the suitability of digital innovation with the principles of maqasid al-shariah. The analysis was carried out with interpretative and normative approaches that are in accordance with Islamic economic values (Adlini et al. 2022), so as to provide a complete understanding of the phenomenon under study.

RESULT AND DISCUSSION

The digital transformation of Islamic banking in Indonesia presents complex dynamics. A review of various sources shows that digitalization opens up great opportunities for the growth of the Islamic finance sector, but also presents structural and normative challenges that cannot be ignored. In this discussion, the research results are grouped into three main themes,

namely opportunities, challenges, and solution strategies based on maqasid al-shariah.

A. Digital Transformation Opportunities

1. Improved operational and service efficiency

Digitalization enables Islamic banking to provide faster, more efficient and cost-effective services. The use of technologies such as mobile banking, digital onboarding, and big data analytics speeds up the process of account opening, financing applications, and daily transactions. This directly improves service quality and customer satisfaction (Faisal 2025).

2. Islamic Financial Inclusion

With Indonesia's wide geographical coverage, digitalization is a strategic tool to reach people in remote areas. Application-based financial services allow access to Islamic banking without physical location restrictions, which encourages the acceleration of Islamic financial inclusion nationally (OJK 2023).

3. Optimizing Islamic Social Finance

Digital management of zakat, Infaq, Sadaqah, and Waqf (ZISWAF) has been proven to increase efficiency, transparency, and accountability in the collection and distribution of funds. That blockchain technology and e-payment system can support the distribution of zakat in real-time and on target.

4. MSME empowerment

Digital banking accelerates the process of Islamic financing for MSMEs, who often have difficulty accessing conventional financing. Contract-based approaches such as murabahah and mudharabah are made easy with user-friendly and application-based digital technology.

B. Challenges Of Digital Transformation

1. Limited infrastructure and technology human resources

There are still many Islamic banks that do not have sophisticated and secure IT systems. In addition, the limited workforce who master digital technology and Islamic economics simultaneously become the main obstacle in the implementation of digitization

2. Low Digital literacy and Sharia

The digital literacy of the Indonesian people, especially among Muslims who are the main targets of Islamic banking, is still relatively low. This has resulted in slow adoption of digital services, as well as an increased risk of misunderstanding of the digital features offered.

3. Shariah Compliance Risk

Innovations such as the use of blockchain-based smart contracts and automated financing should be studied in jurisprudence so as not to conflict with Sharia principles. Gharar, riba and maisir risks should be avoided in any digital product, which requires synergy between scholars, regulators and technocrats.

4. Lack of specific regulations for Digital Sharia

The lack of a specific and adaptive regulatory framework for Sharia digital services causes legal uncertainty and slows down innovation. Regulations must be developed to accommodate technological developments without abandoning aspects of sharia compliance (G, Tauhid, and Adawiyah 2025).

C. Maqasid al-Shariah based solution strategy

1. Integration of Maqasid al-Shariah in technology design

Principles such as Hifz al-mal (protection of property), hifz al-nafs (protection of life), and hifz al-din (protection of religion) should be the

foundation in any digital innovation. The digital system built must ensure fairness, transparency, and welfare for all parties (Kamal et al. 2024).

2. Development Of The National Sharia Digital Ecosystem

The government, OJK, Bank Indonesia, DSN-MUI, and industry must work together to build a Sharia digital financial ecosystem that includes regulation, infrastructure, public education, and incentives for halal fintech innovation and Sharia digital banks (Rohman et al. 2021).

3. Human resources and community literacy training

Strengthening the human resources capacity of Islamic banks through Sharia-based financial technology training is needed. In addition, massive Sharia digital literacy campaigns must be conducted through various media to increase public trust and understanding.

4. International Collaborations

Islamic banking Indonesia can establish strategic cooperation with institutions from developed countries in digital Islamic finance such as Malaysia, UAE, and Bahrain for the exchange of knowledge and technology. Thus, these results and discussions show that the success of the digital transformation of Islamic banking depends not only on technological readiness, but also on the conformity of values, regulatory structure, and active participation of all stakeholders.

Digital transformation in Indonesian Islamic banking offers a great opportunity to expand the reach and improve service efficiency. However, there are still structural, regulatory, and cultural challenges that must be overcome. Digitalization should be a means to realize the values of maqasid al-shariah, not just a technological adaptation. Therefore, a collaborative and integrated approach is needed between all stakeholders so that Islamic

banking can become the locomotive of a modern Islamic economy that is ethical, inclusive, and equitable.

CONCLUSION

Digital transformation in Islamic Banking provides strategic opportunities to strengthen financial inclusion, operational efficiency, and optimization of Islamic Social Fund Management. The implications of this study indicate that the success of digitization is highly dependent on the integration of technological innovation, maqasid al-shariah values, and adaptive regulation. Cross-sector collaboration is key in creating a digital Sharia financial ecosystem that is sustainable and equitable, as well as spiritually and socially meaningful for the Muslim community. This study provides an initial conceptual framework that can be used as a reference in designing digitization strategies that are not only relevant industrially, but also in line with Islamic economic principles.

However, this study has limitations because it only relies on secondary data sources, so it does not cover the practical dynamics in the field as a whole. However, the main contribution of this study lies in preparing the initial foothold in the development of Islamic banking digital transformation in Indonesia. It is expected that in the future there will be more empirical and contextual further research, as well as the preparation of more comprehensive and international standard digital transformation guidelines in order to complement the shortcomings of this study and support the growth of a more resilient and sustainable Islamic financial system.

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