

Digital Transformation of Islamic Banking in Indonesia: Opportunities and Challenges in the Modern Islamic Economy in the New World Order

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Abstract

Digital transformation has become a major force in shaping the global financial industry, including the Islamic banking sector in Indonesia. This study looks at the main opportunities and challenges of digital transformation in Indonesia's Islamic banking system and suggests strategies that follow the principles of Makasid Sharia. Using a descriptive qualitative method, the study examined libraries and analyzed content from academic articles, policy documents, and Islamic financial data. It found that digitization improves service efficiency, increases customer access, helps manage digital decline and waqfs more effectively, and speeds up the growth of microfinance. However, there are several challenges, such as limited technology infrastructure, low levels of digital and Islamic financial knowledge, a shortage of professionals who understand both technology and Islamic law, and a lack of full digital Sharia regulations. Also, there is a risk of violating Sharia rules, especially when using blockchain and smart contracts, which needs careful attention. The study suggests incorporating Islamic values into technology design, building a strong digital Sharia ecosystem, and promoting collaboration and knowledge among all involved parties. Therefore, digital transformation in Islamic banking is not just about new technology, but also about values that help create a more inclusive, fair, and sustainable Islamic financial system.

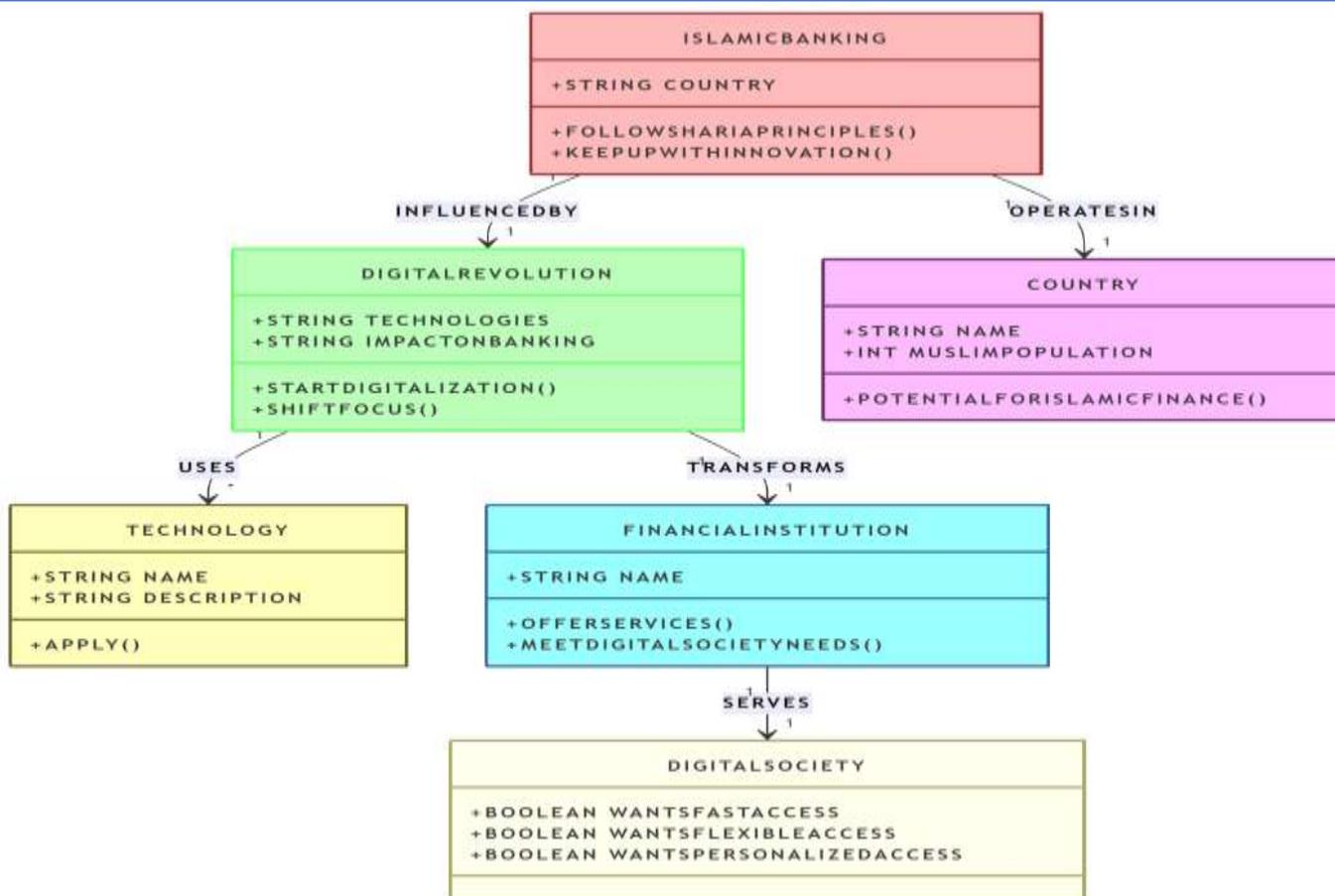
Keywords: Islamic banking, digital transformation, Maqasid-al-Sharia, Islamic economy, Sharia compliance

INTRODUCTION

The growth of digital technologies has changed many areas of life, including finance.

The digital revolution, brought about by the use of technologies like digital banking, artificial intelligence (AI), big data, and blockchain, has totally changed how the global banking industry works. Financial institutions now need to offer services that are not only efficient and quick to respond but also meet the needs of a digital society that wants fast, flexible, and personalized access. Digitalization has shifted the focus from physical services to fully digital and integrated services, creating a new, fast-moving competitive environment (Trimulyana 2024);(Pathan, M.S.K 2023).

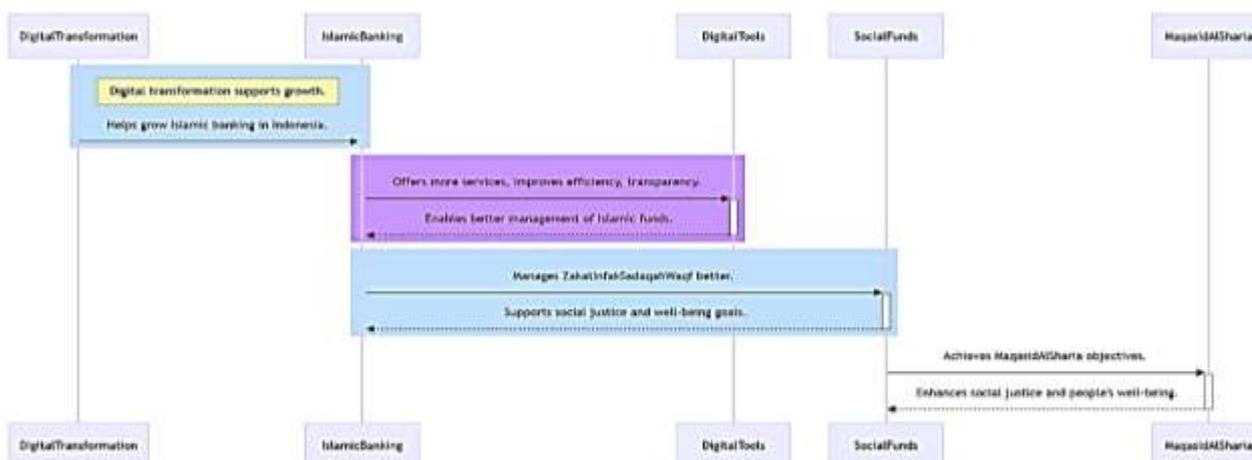
In this context, Islamic banking in Indonesia faces two main challenges: on one hand, it must keep up with the rapid pace of digital innovation, and on the other, it must follow the Sharia principles that guide its activities.



Indonesia, being the country with the largest Muslim population in the world, has huge potential for the growth of an Islamic financial sector.

However, in reality, the market share of Islamic banking is still quite small, making up only around 7% of all banking assets in the country (OJK 2023);(Pathan, M.S.K 2023). This shows that Islamic financial inclusion is still not very high, and Islamic banking hasn't reached many parts of society, especially in remote and less developed digital areas.

Digital transformation is considered a major strategy to help grow Islamic banking in Indonesia. Because of digital tools, Islamic banks can offer more services, work more efficiently, and be more transparent and responsible in managing Islamic funds. Also, digitalization helps manage Islamic social funds like Zakat, Infak, Sadaqah, and Waqf (ZIZWAF) better, which helps achieve the goals of Maqasid al-Sharia, especially in areas like social justice and people's well-being (Nur Aisyah Undarning's, Pathan, M.S.K 2023, Ma'wa and Muh. Noval Valiyuddinsia 2023).



But digital transformation in Islamic banking also faces several important challenges. These include limited technology infrastructure, especially in rural areas; low levels of digital and Sharia financial knowledge among the public; and a lack of people who understand both information technology and Islamic law. Also, there are not enough clear rules for digitalizing Islamic banking, which creates legal uncertainty and can stop innovation. Another big concern is the risk of breaking Sharia rules, especially with technologies like smart contracts and blockchain. If not properly studied by Islamic scholars, these can contain elements that are not allowed in Sharia, such as chance, gambling, or uncertainty (Pathan, M.S.K 2023, Sudarmanto et al. 2024).

This shows the need for a digital transformation plan that not only brings in new technology but also follows the values of Maqasid al-Sharia. In other words, digital transformation should be seen as a way to restore ethical values, not just new technology. Islamic banking needs to create innovations that keep Islamic ethics strong, stop unfair practices, and build a fair and sustainable financial system.

The reason this study is important is that there is a big gap between the strong potential of the Islamic financial sector and how much of it is actually being used in the digital age. Islamic banking has not been able to keep up with traditional banks when it comes to digital services. On the other hand, the chances that digitalization offers to help more people join the economy and feel economically empowered have not been fully used because of problems with the rules that govern it, the technology that's available, and how well different groups work together. That is why this study is needed to look at how the Maqasid al-Sharia approach can be used to guide the digital transformation of Islamic banking in Indonesia.

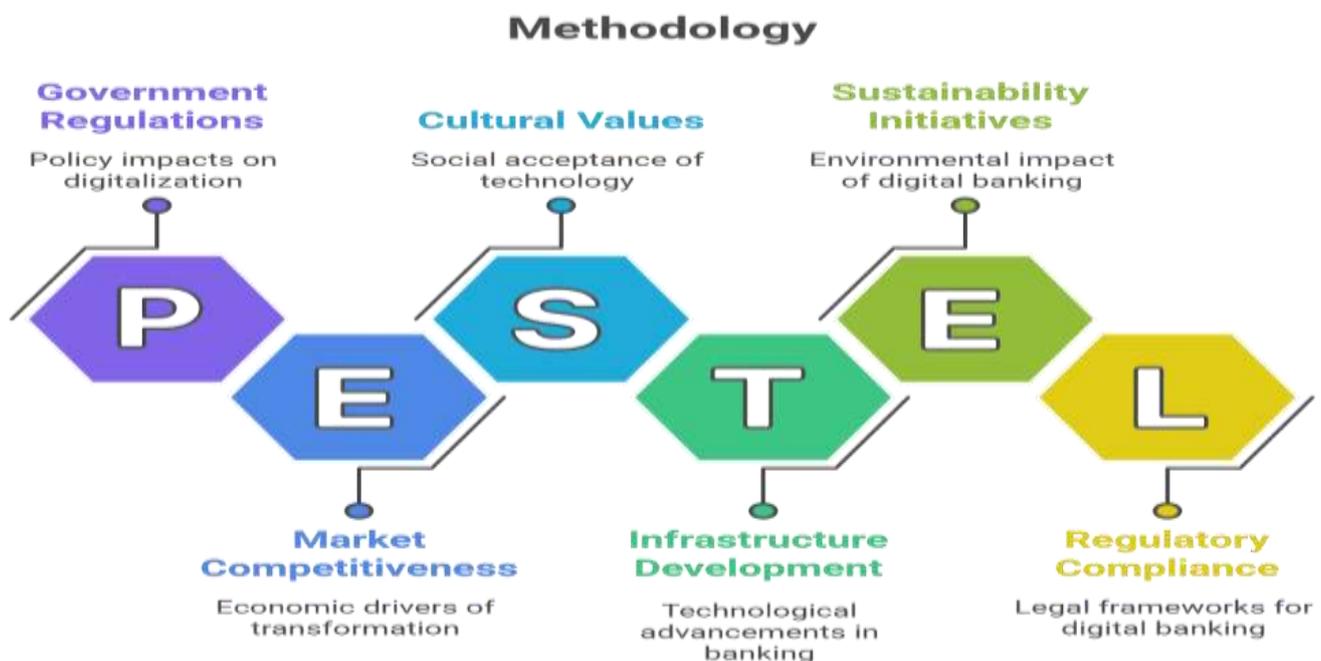
In this context, the goal of the study is to find out and examine the different opportunities and challenges Islamic banks face as they move towards digitalization.

The study also wants to create a strategy for digital transformation that is based on Maqasid al-Sharia, so it can be done in a way that is effective, fair, and long-lasting. The authors hope that the results of this study will help in both thinking about and putting into action the development of Islamic banking systems that use digital tools but are still based on strong Islamic values.

METHOD

This study uses a qualitative approach with descriptive methods (Muhammad, S. K. P. (2023); Zaini et al. 2023).

This type of approach helps give a detailed and thorough understanding of how digital transformation is happening in Islamic banking in Indonesia. This method is suitable because it lets you look at the social changes, meaning, and hidden parts of digitalization without changing the variables you're studying. Qualitative research gives a clear picture of current social situations, especially in the context of an Islamic economy that has strong values.



The method used is bibliographic research (Muhammad, S. K. P. (2023); Panudju and Kalalinggi 2024), which involves looking at various secondary sources.

These sources include national and international academic journals (Scopus and SINTA), annual reports from OJK and Bank Indonesia, textbooks on Islamic economics, and articles in the media about digital transformation in Islamic banking. Reviewing these sources allows for a deep understanding of both ideas and real-world practices without gathering data directly from the field.

The data used is secondary and comes from official documents and scientific publications. The sources include scientific journals (Scopus, SINTA), OJK Annual Report and Statistics for 2023 Muhammad, S. K. P. (2023), include Islamic economic literature, press articles, and press releases from Islamic banking institutions in Indonesia.

The content analysis method used helps to find, group, and assess the main ideas in the literature reviewed. The topics covered include: (1) opportunities for digital transformation in strategy, (2) difficulties in adopting digital tools, and (3) how digital innovation matches the principles of Maqasid al-Sharia. The analysis used an interpretive and normative method that fits with Islamic economic values (Adlini et al., 2022; Muhammad, S. K. P., 2023) to provide a full picture of the situation.

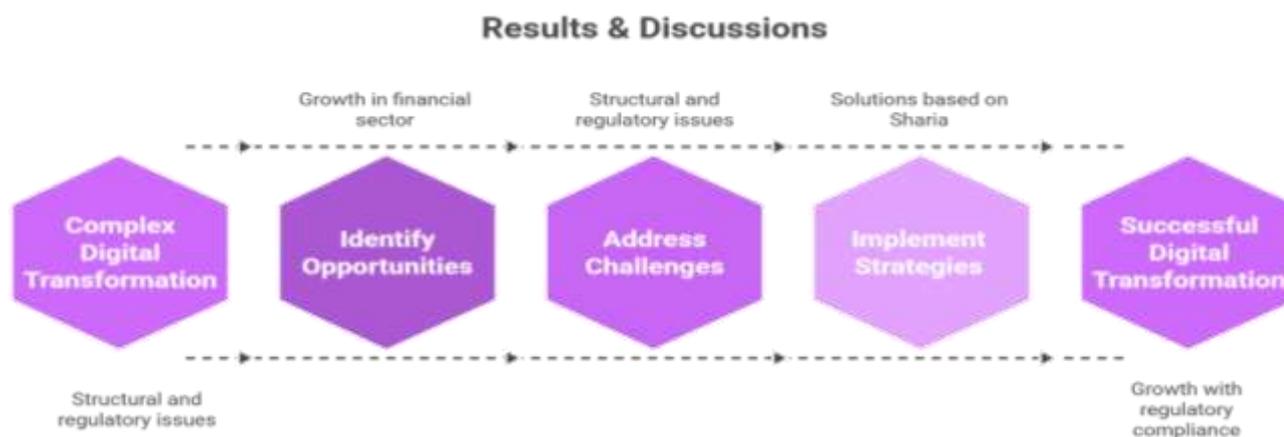
RESULT AND DISCUSSION

The digital transformation in Islamic banking in Indonesia is a complicated process. Looking at different sources shows that digitalization brings big chances for growth in the Islamic financial sector but also creates structural and regulatory issues that need attention. In this discussion, the research findings are organized into three main areas: opportunities, challenges, and strategies for solutions based on Maqasid al-Sharia.

A. Opportunities for Digital Transformation

A. Increasing Operational and Service Efficiency

Digital tools let Islamic banks offer faster, more efficient, and less expensive services. Using technology like mobile banking, digital forms, and big data analysis helps speed up account opening, loan applications, and daily transactions, directly improving service quality and customer satisfaction (Faisal, 2025; Pathan, M. S. K., 2022).



B. Promoting Islamic Financial Inclusion

Because Indonesia covers a large area, digitalization is a keyway to reach people in remote regions. Financial apps provide access to Islamic banking without needing to be physically present, helping to improve financial inclusion across the country (OJK 2023).

C. Improving Islamic Social Finance

Digital tools used in Zakat, Infaq, Sadaqah, and Waqf (ZISWAF) have proven effective, transparent, and accountable in collecting and distributing funds.

Using blockchain technology and electronic payments can help distribute zakat quickly and on time.

D. Supporting Small and Medium Enterprises

Digital banking helps small and medium businesses get Islamic finance more easily, as they often find traditional finance hard to access. Digital tools make it easier to carry out financing methods such as murabaha and Mudharabah through simple, app-based platforms.

A. Challenges of Digital Transformation

A. Limited infrastructure and technological human resources

Many Islamic banks still lack modern and secure computer systems.

Also, there is a shortage of skilled workers who understand both digital technology and the Islamic economy,

which makes it hard to adopt digital solutions.

B. Low digital literacy and Sharia

The digital skills of the Indonesian population, especially among Muslims who are the main users of Islamic banking, are not extremely high.

This leads to slow use of digital services and misunderstandings about what these services can do.

C. Risk of Sharia compliance

New technologies like blockchain and automated finance need to be carefully studied in court practices to make sure they don't break Sharia rules. Risks like gharar (uncertainty), fish (gambling), and maysir (luck-based gambling) should be avoided in digital products, and this needs cooperation between experts, regulators, and technologists.

D. Lack of specific rules for digital Sharia

There is no clear and flexible set of rules for digital Sharia services, which causes legal problems and slows down progress. It is needed to create regulations that support new technologies without losing the key parts of Sharia compliance (G, Tauhid and Adawiyah 2025; Pathan, M. S. K. (2022).

A Solution Strategy Based on Maqasid Al-Sharia

A. Integrating Maqasid al-Sharia into technological design

Principles like protecting property (Hifz al-mal), protecting life (Hifz al-Nafs), and protecting religion (Hifz al-Din) should form the base for every digital innovation.

The digital systems made should be fair, open, and help everyone (Kamal et al. 2024; Pathan, M. S. K. (2022).

B. Development of the national Sharia digital ecosystem

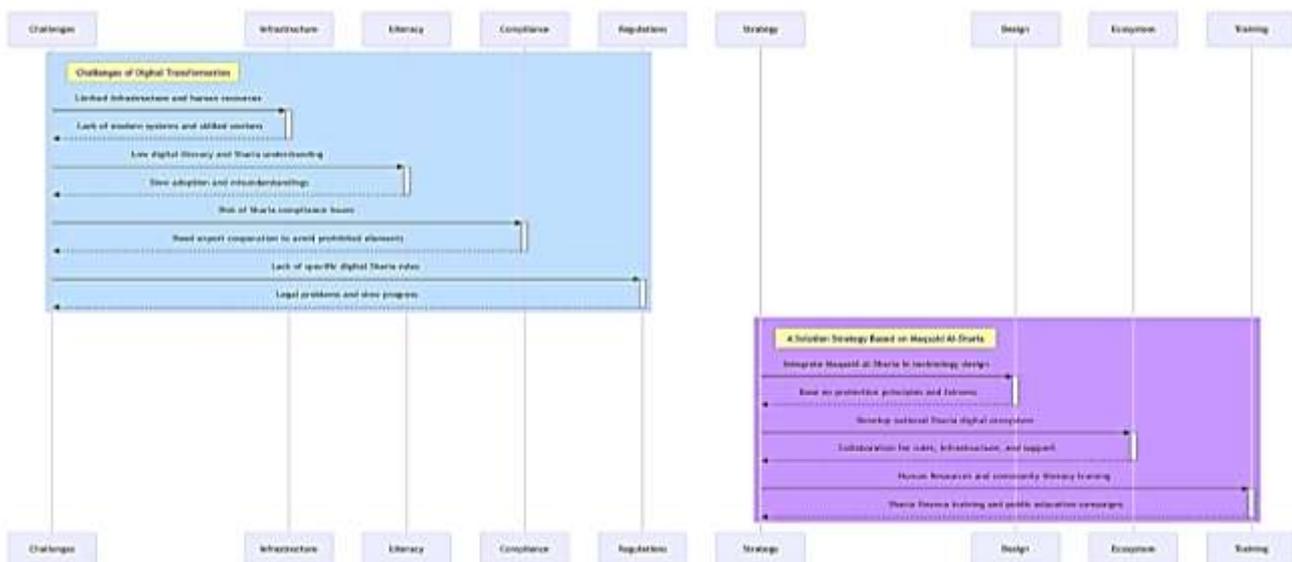
The government, OJK, Bank Indonesia, DSN-MUI, and the industry should work together to build a digital financial ecosystem based on Sharia.

This should include rules, infrastructure, public education, and support for halal fintech and Sharia digital banks (Rohman et al. 2021; Pathan, M. S. K. (2022).

C. Human Resources and Community Literacy Training

Islamic banks need better training in Sharia-based financial technologies.

Also, big campaigns should be run to teach people about digital Sharia, to build trust and understanding.



A. International cooperation

Islamic banking in Indonesia can build important partnerships with institutions in developed countries in the area of Islamic digital finance, like Malaysia, the United Arab Emirates, and Bahrain.

These collaborations can help share knowledge and technology. The results and discussions show that the success of digital transformation in Islamic banking depends not only on having the right technology but also on following values, having a strong regulatory system, and getting support from all involved parties.

The digital transformation in Indonesian Islamic banking offers a big chance to make services more widespread and efficient.

However, there are challenges related to structure, rules, and culture that need to be dealt with. Digitalization should be used to make sure the values of Maqasid al-Sharia are followed, not just to adopt new technology. Because of this, it's important for all the people involved to work together in a coordinated way so that

Islamic banking can become the driving force of a modern, ethical, inclusive, and fair Islamic economy.

CONCLUSION

The digital transformation in Islamic banking offers strategic opportunities to improve financial inclusion, make operations more efficient, and better manage Islamic social funds.

The study shows that digital success depends on combining technological innovation with Maqasid al-Sharia values and flexible rules. Working together across different sectors is essential to build a sustainable and fair Sharia-based digital financial system that also has a strong spiritual and social impact on the Muslim community. This study provides a starting point for developing digital strategies that work well at the industry level and align with Islamic economic principles.

However, this study has some limitations because it only uses secondary data and doesn't cover the real-world situation fully.

But the main contribution is preparing an initial direction for the digital transformation of Islamic banking in Indonesia. It is hoped that future studies will be done with more practical insights, as well as more detailed guidelines and international standards for digital transformation. These will help fix the shortcomings of this study and support the development of a stronger and more resilient Islamic financial system.

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