

OPPORTUNITIES AND CHALLENGES OF ISLAMIC BANKING IN DIGITAL TRANSFORMATIONWahyu Syah Putra¹, Silvia Yulita², and Hastomo³¹ Imam Bonjol State Islamic University Padang, Padang, Indonesia² Mahmud Yunus State Islamic University, Batusangkar, Batusangkar, Indonesia³ Indonesian School Kota Kinabalu, Sabah, Malaysia**Corresponding Author:**

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Abstract

Digital transformation has become an inevitable necessity in the modern banking sector. Technological advancements demand that financial institutions, including Islamic banks, adapt swiftly to meet the evolving needs of customers. However, in the context of Islamic banking, digitalisation presents unique challenges, particularly in ensuring compliance with Sharia principles. This study aims to identify potential opportunities, analyse key challenges, and formulate relevant and applicable strategies for the digitalisation process in Islamic banking. A qualitative case study approach was employed, involving 22 participants from diverse backgrounds, including practitioners, academics, regulators, and customers of Islamic banks. Data were collected through in-depth interviews, field observations, and document analysis. The findings reveal that the primary obstacles lie in the incomplete integration of Sharia principles within the current digital systems and the low level of technological literacy among industry stakeholders and customers. On the other hand, digital transformation offers significant opportunities for expanding Islamic banking services more inclusively and efficiently. Therefore, this study recommends integrative strategies that encompass the development of a digital architecture grounded in Sharia values, along with enhancing human resource capacity through technology training and digital literacy programs. These strategies are expected to facilitate a comprehensive digital transformation that remains firmly aligned with Sharia compliance and ensures sustainable development in the Islamic banking sector.

Keywords: Digital Transformation, Islamic Banking, Opportunities and Challenges



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INTRODUCTION

Digital transformation has become a strategic agenda for all industrial sectors, including the banking sector, to improve operational efficiency, competitiveness, and quality of service to customers (Osei dkk., 2023; Tiffani, 2023; Wulandari dkk., 2025). Islamic banking as an integral part of the national financial system is not free from this demand, although it faces its challenges related to the characteristics and principles it upholds. One of the main challenges is how technology can be integrated completely without violating Sharia principles, such as the prohibition of usury, gharar, and maysir. On the other hand, the potential offered by digitalization is enormous, ranging from expanding the reach of services to strengthening Sharia-based financial inclusion which has so far been less than optimal. In other words, Islamic banking is at a crossroads: between the risk of deviation from sharia principles and the opportunity to grow faster through digital technology. Therefore, it is important to examine how Islamic financial institutions can take advantage of this opportunity without losing their Sharia identity and integrity.

Various literature has tried to review the development of Islamic banking in a digital context, but many of them have not comprehensively answered the fundamental dilemmas faced by this financial institution. For example, theories on the adoption of technology in financial institutions tend to focus on efficiency and productivity, without paying attention to the element of Sharia compliance which is the main operational basis of Islamic banks (Januru dkk., 2025; Navisa, 2023). Some studies still place Islamic banking in the same framework as conventional banking in terms of digitalization, even though there are fundamental differences in the principles and business models being implemented (Cohen, 2023; Putri dkk., 2024; Ribowo & Nurdin, 2022). In addition, the normative approach in previous studies is often unable to answer the practical challenges faced in the field, such as limited human resources, technology systems that are not yet Sharia-compliant, and the low level of digital literacy in society. This lack of analysis indicates the need to compile a more relevant, contextual, and applicable study in explaining the phenomenon of digital transformation in Islamic banking as a whole.

This study aims to provide conceptual and practical contributions to understanding the dynamics of digital transformation that is currently taking place in the Islamic banking sector. Specifically, the main objectives of this study are: first, to identify opportunities that can be utilized by Islamic banking in the era of digital transformation, including the potential for increasing Islamic financial inclusion, developing technology-based services, and increasing operational efficiency. Second, to analyze the challenges faced by this institution, both in terms of regulation, human resources, technological infrastructure, and compliance with Islamic principles. Third, to present strategies and recommendations that can be used as references by policymakers and Islamic banking industry players in developing a digital ecosystem that is by Islamic values. Thus, this study is not only descriptive but also seeks to provide solutions to the problems faced in the digital transformation process in the Islamic banking environment.

The urgency of this research lies in the urgent need for a more comprehensive and targeted understanding of how digital transformation can be synergized with the values and basic principles of Islamic economics. In an increasingly digitalized global context, Islamic banking can no longer rely on conventional approaches to managing operations and services (Ausat dkk., 2025; Frosinini & Borra, 2025; Linaritis, 2025). The facts that have been presented show that there is great potential that has not been optimally explored, as well as serious challenges that risk hampering the development of this industry if not responded to immediately. The research objectives that have been explained lead to one important argument, namely that digitalization in the Islamic banking sector is not just a trend, but an inevitability that requires systemic and strategic readiness. Therefore, this research is expected to be the initial foundation in formulating the direction of policies and strategies for developing Islamic banking based on digital technology but still maintaining the integrity of the Islamic values that are its main foundation.

In strategic management and economic studies, the terms opportunities and challenges are two fundamental concepts that are often used in analyzing the dynamics of an organization's external and internal environment. Opportunities are defined as conditions or situations that allow an organization to improve performance, expand markets, or gain competitive advantage through certain actions (Csik dkk., 2025; Mohammed dkk., 2025; Yao dkk., 2024). Conversely, challenges refer to obstacles or problems that must be faced and overcome for the organization's goals to be achieved (Arshi dkk., 2024; Nesterak dkk., 2024; Zhang & Li, 2024). These two concepts are dynamic and interrelated, where opportunities often coexist with challenges that require readiness and adaptive strategies from the organization. In the context of Islamic banking, understanding what the opportunities and challenges are is an important first step in designing a sustainable digital transformation strategy (Junaedi dkk., 2023; Rafidah & Maharani, 2024; Wati & Fasa, 2025). Thus, this literature review aims to explore the conceptual meaning of opportunities and challenges in a more contextual and relevant framework for the Islamic financial industry.

Opportunities and challenges in the business and financial world are often categorized based on macro and micro environmental dimensions, as well as internal and external dimensions of the organization. In strategic literature, opportunities can be reflected in technological changes, new regulations, market growth, and profitable shifts in consumer preferences (Fadhillah & Yuniarti, 2023; Ngamal & Perajaka, 2022; Salsabilla & Nisa, 2024). On the other hand, challenges can come from intense competition, limited resources, regulatory inconsistencies, and resistance to internal change (Wang, 2025). In the context of Islamic banking, opportunities include increasing public awareness of Islamic finance, government support for financial inclusion, and the development of financial technology (fintech) (Abadi dkk., 2021; Menne, 2023). Meanwhile, the challenges include limited human resources who understand digital and Islamic aspects, the need for infrastructure that is by Islamic principles, and the level of digital literacy in society that is not yet evenly distributed. Therefore, identifying and categorizing opportunities and challenges is an important step in formulating strategies that are adaptive, innovative, and remain based on Islamic principles.

Islamic banking is a banking system that operates based on Islamic Sharia principles, which emphasize fairness, transparency, and prohibition of *riba*, *gharar*, and *maysir* practices (Djamil, 2023; Muhajil dkk., 2024). In Islamic economic literature, Islamic banking not only functions as a financial intermediary institution but also as an instrument of economic and financial equality based on Islamic ethical and moral values (Rofiullah, 2025). Islamic banks offer financial products and services that comply with Islamic law, such as *mudharabah*, *musyarakah*, *murabahah*, *ijarah*, and *wakalah* contracts. Unlike conventional banks that are oriented towards interest and maximum profit, Islamic banking emphasizes the principle of sharing risks and fair results between the parties involved. Thus, Islamic banking is not only a financial entity but also a representation of an alternative economic system that aims to create

social justice through halal and thoyyib transactions. Understanding this basic concept is important in placing digital transformation within the framework of Islamic values.

In Islamic economics and financial policy literature, Islamic banking is categorized based on the type of institution, business model, and types of products and services offered (Saepudin & Wage, 2023). Institutionally, Islamic banking can be in the form of Islamic commercial banks, Islamic business units of conventional banks, and Islamic People's Financing Banks (BPRS). In terms of business models, Islamic banking can implement various contracts that are adjusted to the type of financing and customer needs, such as profit-sharing contracts (*mudharabah* and *musyarakah*), buying and selling (*murabahah* and *salam*), and leasing (*ijarah*). In addition, Islamic banking services include savings, financing, debit cards, microfinance, and digital services such as Islamic-based mobile banking. In practice, each form of institution has different capacities and challenges in implementing Islamic principles, especially when faced with the need to digitize systems and services. This categorization is important to understand the diversity of approaches in Islamic banking and how each can respond to digital transformation in the right way.

Digital transformation is a strategic process that integrates digital technology into all aspects of an organization's operations, business models, and customer service to improve performance, efficiency, and relevance in the digital era (Maria dkk., 2024). According to management and information technology literature, digital transformation is not just the use of information technology in organizational activities but includes changes in work culture, mindset, and the way organizations provide value to stakeholders. In the context of the financial services industry, digital transformation includes the use of technologies such as big data, artificial intelligence (AI), blockchain, and the Internet of Things (IoT) to support decision-making processes, risk management, and real-time customer service. This transformation is also marked by a shift from a physical-based system to a digital platform-based system. Therefore, understanding the definition and scope of digital transformation is key to assessing the readiness of Islamic banking to adapt and optimize the opportunities offered by technological advances.

Digital transformation in organizations can be categorized into several main aspects, namely business process transformation, business model transformation, organizational culture transformation, and customer experience transformation. Business process transformation includes operational automation, the use of digital systems for transactions, and the integration of technology into the value chain. Business model transformation involves a shift from traditional approaches to digital platform-based models, such as the use of digital banking services or mobile banking. Organizational culture transformation includes changing employee mindsets to be more adaptive to technological innovation and increasing digital capacity. Meanwhile, customer experience transformation aims to create faster, more efficient, and more personal interactions through digital channels. In the context of Islamic banking, the main challenge is how to ensure that every aspect of the transformation remains within the corridor of Sharia compliance. Therefore, this categorization helps in identifying the most crucial areas to be adjusted to the principles of Islamic economics.

RESEARCH METHOD

This research focuses on an in-depth study of the opportunities and challenges faced by Islamic banking in the digital transformation process. The object of this research was chosen based on the urgency of the role of technology in the development of the global financial system, including in the Sharia-based banking ecosystem. The phenomenon of digitalization presents a new dynamic for the banking industry, where Islamic banking as a financial entity based on Islamic values, must be able to navigate the available opportunities without ignoring Sharia principles. Therefore, the focus of this research includes how Islamic banking

institutions respond to digital transformation, in terms of technological readiness, business strategy, regulation, and market response. By making opportunities and challenges the main focus, this research seeks to dissect how Islamic banking can maximize the potential of digitalization strategically and sustainably. This is important considering the position of Islamic banking which has an inclusive and ethical vision, but on the other hand, must compete competitively amidst the rapid acceleration of digital innovation.

The research approach used in this study is a qualitative method with a case study design, which allows researchers to comprehensively explore the phenomenon of digital transformation in the context of Islamic banking (Rifa'i, 2023). This method allows for a contextual understanding of the issues studied in depth through various credible sources of information. Primary data in this study were obtained through direct interviews with key informants who have a deep understanding of digitalization in the Islamic banking sector. In addition, secondary data were collected from relevant literature, including academic journals, industry reports, regulatory policies, and official banking documents related to the implementation of digitalization in the Islamic financial system. By combining these two types of data, researchers seek to build a holistic and contextual understanding of how these opportunities and challenges manifest in real practice. This allows the study to produce findings that are not only theoretical but also applicable in answering strategic issues faced by Islamic banking institutions.

Participants in this study were selected purposively to ensure representation from various perspectives relevant to the issue of digital transformation in Islamic banking. The informant sample consisted of five Information Technology (IT) managers from national Islamic banks who understand the implementation of digitalization from a technical and strategic perspective. In addition, three heads of Islamic business units from conventional banks were also involved, considering that they have experience in managing the transition from conventional services to Islamic-based services with a digital approach. Four academics from the fields of Islamic economics and financial technology participated to provide theoretical and academic views on the phenomenon being studied. Finally, ten customers from Islamic banks, both those who actively use digital services and those who still use conventional services, provided end-user perspectives that are very important in assessing the effectiveness of digital transformation. By involving these various actors, the study can explore complex dynamics and enrich the analysis from various complementary perspectives.

The data collection process in this study was carried out systematically through three main techniques, namely interviews, observations, and documentation. Interviews were conducted in a semi-structured manner so that informants had the freedom to explain their views, but remained within the limits of the research theme. Observations were conducted to capture the real dynamics related to the implementation of digitalization in the Islamic banking environment, both in service interactions and the use of technology. Documentation was used to support field findings, including analysis of financial reports, internal bank policies, and digital strategies implemented. The research stages began with identifying informants, preparing interview guides, implementing data collection, and the data verification process to ensure accuracy. Data from the three techniques were then combined to obtain a comprehensive and in-depth understanding of the phenomenon being studied. The triangulation approach of this method aims to increase the validity of the findings and strengthen the position of the data as a basis for analysis in answering the formulation of research problems empirically.

The data analysis technique used in this study refers to the Miles and Huberman model which consists of three main stages, namely data reduction, data presentation, and drawing conclusions and verification. Data reduction is carried out by filtering information from interviews, observations, and documentation that is relevant to the focus of the study, namely the opportunities and challenges of digital transformation in Islamic banking. The reduced data

is then presented in the form of matrices, narratives, and thematic categories to facilitate understanding and analysis. Furthermore, the conclusion is carried out iteratively to ensure that the findings are valid and in the real-life context of the participants. In this process, the validity of the data is tested through four criteria, namely credibility (internal validity), dependability (reliability), transferability (possibility of limited generalization), and confirmability (objectivity). The case study approach used allows researchers to interpret the findings in a real context, as well as contribute to the development of theoretical and practical knowledge in the field of Islamic economics and digital transformation.

RESULTS AND DISCUSSION

Data from interviews, observations, and documentation show that opportunities and challenges in the digital transformation of Islamic banking emerge simultaneously in various operational and strategic aspects. IT managers revealed that the existing digital system has not been fully integrated with Islamic principles, especially in the automatic transaction feature which still contains elements of interest. Meanwhile, the head of the Islamic business unit identified great potential in utilizing mobile banking to reach areas that have not been served by Islamic financial services. From the customer side, there is a desire for digital services that are fast, easy to access and remain in line with Islamic values. The results of observations support this, where the mobile applications of Islamic banks appear more limited than conventional banks, and digital processes in branches still require manual intervention. Internal documentation shows that the implementation of the bank's digitalization roadmap is hampered by the readiness of human resources and a lack of understanding of Islamic principles in the context of technology. All of this data shows the complex dynamics between great potential and real obstacles that still need to be overcome.

Further elaboration of the data shows that the digital transformation of Islamic banking has not been able to run optimally due to system and resource limitations. IT managers show the main technical challenge, namely the existence of digital system features that automatically calculate interest, which is not by Sharia principles. On the other hand, business unit leaders see opportunities for digitalization in terms of service coverage, especially with the growth of internet and smartphone use among the public. Academics added that one important factor is literacy, both digital and sharia so that the digitalization process does not deviate from the principles of Islamic muamalah. Customers emphasize the importance of convenience, speed, and ease in digital services without ignoring the integrity of religious values. Observations of service conditions at branch offices support this view, where digitalization of transaction processes such as murabahah and ijarah is still needed, which are currently not automated. Internal documentation shows a focus on technical training, which still does not prioritize the perspective of Sharia compliance in technology. This explanation confirms that although the opportunities for digitalization are large, the challenges are also real and multidimensional.

The relationship between the description and explanation of data on opportunities and challenges with research problems appears very relevant and mutually reinforcing. The main problem that is the basis of the research is how Islamic banking can optimally utilize digital transformation without ignoring Sharia principles. Empirical data obtained from interviews, observations, and documentation show that the opportunity to reach new customers through digital technology is indeed large, but has not been fully utilized to its full potential. Obstacles found in the digitalization system, limited human resources, and the unpreparedness of organizational culture in aligning sharia with technology are the main challenges that need to be overcome. Awareness of the importance of digital services that are by Sharia principles has existed at the management and customer levels but has not been fully followed by the readiness of infrastructure and operational systems. Therefore, this section emphasizes that the data obtained supports the urgency of conducting this research and shows the need for a concrete

strategy to overcome the gap between the potential and implementation of digital transformation in Islamic banking.

Data collected from interviews, observations, and documentation also provide an in-depth picture of the actual conditions of Islamic banking as an entity that upholds Islamic values in modern financial practices. Interviews with heads of Islamic business units indicate that Islamic banking is still in the consolidation phase towards complete and integrated digitalization. Academics note that many Islamic banks do not yet have digital instruments that are fully aligned with Islamic contracts, creating a gap between principles and practices. From the customer side, there is an expectation for digital services that are not only sophisticated but also transparent and based on religious values. Observations of services at Islamic banking branch offices show that several transaction processes, such as murabahah and ijarah contracts, are still carried out manually, indicating low automation in Islamic services. Internal bank documentation shows that there is a digitalization plan, but has not shown significant implementation, especially in terms of compiling a comprehensive Islamic law-based system. These findings indicate that Islamic banking is still in the early stages of adopting technology that is in line with its Islamic identity.

The description of the data shows that digital transformation in Islamic banking requires not only a technological approach but also an alignment of Islamic values that are the basis of the bank's operations. Interviews with managers and leaders show that major challenges arise in the process of developing a digital system that can accommodate Islamic contracts automatically and accurately. Academics reinforce this by emphasizing the need to develop software and service platforms that are not only technologically sophisticated but also designed based on Islamic legal principles. Customers show a need for more intuitive services that are free from *riba*, *gharar*, and *maysir* practices, indicating that religious preferences are an integral part of user expectations. Observations show limitations in existing applications and systems, while documentation shows that internal training focuses more on technical aspects, rather than on the integration of technology and Islamic law. From all of this data, it is clear that Islamic banking requires a two-way transformation: technological modernization and strengthening of the Islamic financial identity.

The relationship between data on the condition of Islamic banking and research problems shows a close and deep relationship. The main problem in this study is how Islamic banking can optimize digitalization while still adhering to Islamic principles. The data shows that digital transformation efforts have not fully touched on the fundamental aspects of Islamic banking, namely the suitability of the system with Islamic contracts and values. There is a gap between the desire to innovate digitally and the readiness to maintain Islamic integrity in the process. Findings from interviews, observations, and documentation indicate that digitalization has not fully accommodated the unique characteristics of Islamic banking, thus potentially causing a dilemma in implementing Islamic principles. This clarifies the position of the problem in the study, namely the need to formulate an approach that is not only adaptive to technology but also contextual to the Islamic values that underlie the Islamic banking system.

Digital transformation as a main aspect of this study is also traced through interviews, observations, and documentation that illustrates the extent to which this process has been implemented in Islamic banking. From the results of the interviews, IT managers said that although the digitalization roadmap has been prepared, the actual implementation still experiences various technical and structural obstacles. One of the main obstacles is the limited human resources who understand both technological aspects and sharia principles. Business unit leaders stated that digital initiatives are hampered by internal policies that are not yet flexible. The results of observations show that most Islamic banking applications are still in the early stages of development, with features that are not as complex as conventional banking services. Internal documentation supports this by stating that staff training is still focused on technical operational aspects, not touching on Sharia-based training in a digital framework.

From all of these data, it can be seen that digital transformation in Islamic banking has not reached an integrative stage that combines sophisticated technology with the uniqueness of Islamic values.

The explanation of the data shows that the digital transformation of Islamic banking is in an unstable transition phase. The need for digitalization is recognized by all parties involved, but its actual implementation is still constrained by various internal and external factors. IT managers highlighted that the current Islamic banking system does not yet have a technological solution that is fully compatible with Islamic principles, thus requiring deep systemic adjustments. In addition, less adaptive internal policies and regulations slow down this transformation process. Customers have high expectations for digital services that are easily accessible, fast, and reliable, but in reality, these services are still limited. Bank documentation shows that the digital development strategy focuses more on technical innovation without fully including the normative aspects of Islamic law. This explanation shows that the digital transformation of Islamic banking is still in its early stages, requiring capacity building and harmonization between technology and Islamic values as the basis for services.

The relationship between digital transformation data and research problems shows that the digitalization process in Islamic banking has not fully answered the core challenges of this study. The reality revealed by the data shows that digitalization is still oriented towards technical achievements and has not involved much integration of Islamic principles in its design and implementation. This is a major challenge in creating a digital system that is not only efficient and competitive but also complies with Islamic values that are the ethical foundation of Islamic banking. Limited human resources, infrastructure, and lack of Islamic-based training hinder this process. Therefore, the results of this study descriptively confirm that to answer the main problem, namely optimizing digitalization opportunities while maintaining Islamic integrity, a special strategy is needed that combines a technological approach and Islamic normative values simultaneously. The following table presents research findings related to the results of interviews with several respondents, the results of field observations, and documentation studies.

Table 1. research findings based on interview results, observation results, and documentation study results

No.	Research Purposes	Research Findings
1	Identifying opportunities that can be utilized by Islamic banking in the era of digital transformation	<ul style="list-style-type: none"> - Increasing financial inclusion through mobile banking services in remote areas. - Reaching millennial and digital native segments who are more responsive to technology-based financial services. - Improve operational efficiency through digitalization of sharia-based banking pro. - Expanding the variety of technology-based sharia products such as e-muamalat and digital contracts.
2	Analyzing the challenges faced by Islamic banking in the digital transformation process	<ul style="list-style-type: none"> - Lack of integration of sharia principles in existing digital systems, such as automatic interest features. - Low human resource capacity in managing digital systems by Islamic law. - Limited digital infrastructure that supports sharia contracts in real time. - Lack of digital literacy and sharia literacy from both internal banks and customers.
3	Presenting strategies and recommendations	<ul style="list-style-type: none"> - Develop a special digital system based on the principles of fiqh muamalah and avoid riba features.

that can be implemented by Islamic banking to face challenges and maximize digitalization opportunities.	- Improve integrated HR training between technical and sharia aspects. - Encourage collaboration between academics, regulators, and practitioners in building a sharia digital ecosystem. - Improve Sharia digital literacy through educational campaigns to customers.
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The results of this study substantially show that digitalization in Islamic banking opens up a large space for expanding access, service efficiency, and innovation of Islamic financial products, but in practice, it is still hampered by the limitations of technological infrastructure that is by Islamic principles. The unpreparedness of a digital system integrated with Islamic values, low digital-Islamic literacy in internal human resources, and the lack of a digital strategy based on Islamic law are the main findings that hinder the pace of transformation. On the other hand, customer expectations for modern, easy, and religiously based Islamic services show that there is great market potential. However, this potential has not been optimized due to the gap between the idealism of Islamic values and the reality of implementing its technology. This proves that the digitalization process is not only a matter of adopting technology but also about reinterpreting Islamic principles within the framework of a modern digital system.

Compared to previous studies that emphasize technological readiness in the digitalization of Islamic banking (such as studies by Hassan and Ali, 2021; and Haron, 2020), this study offers a more comprehensive approach by placing the integration of technology and Sharia values as the center of analysis. Other studies often separate the issues of digital transformation and Sharia compliance as two different entities, while this study examines both as a systemic whole. This advantage makes this study more relevant in the context of contemporary Islamic economic development, where the complexity of implementing sharia principles in digital systems is a major challenge. By using case study methods and field data from various strategic informants, this study can present a more in-depth and realistic picture compared to previous quantitative studies that tend to be generalistic and less contextual.

Reflection on the findings of this study shows that the opportunities and challenges identified are not only descriptive information but also a basis for determining the strategic direction of digital transformation of Islamic banking. The first objective, namely identifying opportunities, can be seen from the high customer interest in digital services that remain by Islamic principles. Meanwhile, the second objective, namely analyzing challenges, is reflected in the imbalance between technological readiness and Islamic compliance. Reflection on the third objective—developing a strategy—shows that an interdisciplinary approach is needed between information technology, Islamic law, and change management. Therefore, the main benefit of this study lies in its ability to form a strategic foundation for Islamic banking to develop an ethical, efficient, and contextual digital system within the framework of Islamic values.

The implications of the results of this study are very broad, both at the practical and conceptual levels. At the institutional level, Islamic banks must reformulate their digitalization strategies by making Islamic principles the main reference in system development, not just a complement. This includes designing digital features based on Islamic contracts, cross-skilled HR training, and developing internal policies that are adaptive to technological developments. On the regulatory side, these results provide important input for financial authorities and the National Islamic Council to develop guidelines for digital transformation based on Islamic maqashid. Conceptually, this study encourages the formation of a new paradigm in the study of Islamic economics that is more integrative, namely the digital fiqh approach that unites classical Islamic jurisprudence traditions with the realities of modern technology.

The stagnant condition of the digital transformation of Islamic banking found in this study is caused by a combination of structural and cultural. Structurally, many Islamic banks still use legacy systems that are not designed with Islamic principles as a foundation. The absence of collaboration between technology developers and Islamic jurisprudence experts causes a mismatch between digital systems and Islamic muamalah principles. Culturally, most bank employees and leaders still see Islamic law as a passive entity that is only tested after the system is developed, not as the main guideline since the design stage. Furthermore, the weakness of digital-Islamic law literacy makes actors within the bank not have a comprehensive understanding of how technology and Islamic law can work synergistically. All of these factors form the root cause of the minimal integration between technology and Islamic law in the digital transformation of Islamic banking.

Based on the analysis of the research results, the actions that need to be taken include several levels of intervention. First, at the system development level, Islamic banks must collaborate with Islamic jurisprudence experts and technology developers from the beginning of designing a digital system. Second, training and certification for banking human resources need to be expanded to include aspects of digital sharia compliance. Third, the OJK and the National Sharia Council need to formulate sharia digitalization standards that are structured, flexible, and responsive to technological changes. Fourth, further research needs to be focused on the integration of Islamic jurisprudence and technology with participatory-based empirical studies. Finally, public education on digital Sharia financial literacy needs to be carried out massively to encourage demand and trust in the digital Sharia system. With these steps, digital transformation in Islamic banking will not only be a tool for modernization but also a vehicle for preaching and the progress of a sustainable Islamic economy.

CONCLUSION

The study revealed a surprising finding: although Islamic banking has been assumed to be slow to digitally transform due to technological limitations, in reality, the main problem lies in the lack of integration of Islamic principles into the digital system itself. The fact that most digital systems used by Islamic banks still contain features that are not by Islamic law—such as automatic interest mechanisms—indicates a structural and epistemological gap between financial technology and Islamic values. Furthermore, the push from customers for fast and Islamic-compliant digital services shows that the market is more ready than the institution, creating a paradox that demand for Islamic digitalization comes from outside the system, not from within.

This research provides an important contribution to the development of science both theoretically and practically. Theoretically, this research enriches the discourse of contemporary Islamic economics by introducing a digital fiqh approach, a synthesis of Islamic law and digital system architecture. This concept opens up new space for further research to develop a theoretical framework that is more adaptive to technological developments. Practically, this research provides a roadmap for Islamic banking institutions to design digitalization strategies that are not only based on efficiency and innovation but also on the authenticity of Islamic values. The recommendations offered in this research can be directly applied to internal bank policies, HR development, and the formation of regulations by relevant authorities.

Despite making significant contributions, this study has limitations that serve as a starting point for further study development. The focus of this study is limited to a case study approach in several Islamic banking institutions in Indonesia so the generalization of the results still requires caution. In addition, the technological dimension in this study is still analyzed more from the policy and implementation side, not from the technical aspects of algorithms or Sharia-based system design directly. Therefore, further research can be directed at cross-

disciplinary exploration between fiqh muamalah and information technology, or at comparative studies across countries to see how sharia digitalization is implemented in different social and cultural contexts. In this way, Islamic economic studies can continue to develop in responding to the challenges of the times in a relevant and solution-oriented manner.

Digital transformation is inevitable in banking, but Islamic banking faces challenges in maintaining compliance with Islamic principles. This study aims to identify opportunities, analyze challenges, and present relevant strategies in the digitalization process of Islamic banking. The method used is qualitative with a case study approach, involving interviews, observations, and documentation of 22 participants from various backgrounds. The results show that the lack of integration of Islamic principles in the digital system and low technological literacy are the main obstacles, while the potential for expanding digital services is very large. This study concludes the need for the integration of Islamic values into digital architecture and increasing human resource capacity as the main strategy to face digital transformation comprehensively.

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