The Era of Digitalization of Islamic Banking: The Case Study of New World Order

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Received on: 25 -07-2024 Accepted on: 26- 08 -2024

Abstract

The integration of digital technologies into the Islamic financial system has transformed both macroeconomic and microeconomic activities. In the contemporary world, digitalization is a driving force that shapes economic processes across industries. Often referred to as information and communication technology (ICT), digitalization enhances the accessibility, speed, and dissemination of critical financial information, which in turn supports economic growth. By leveraging advanced ICT tools, Islamic banks are able to streamline their operations, improve transparency, and offer more efficient services to customers. Mobile applications and digital platforms provide users with convenient, intuitive, and secure access to banking services, reflecting the increasing penetration of digital tools in everyday life. The collaboration between Islamic banking institutions and technology providers is fostering innovative information systems that simplify transactions, reduce operational costs, and promote financial inclusion. As a result, the rise of a digital economy is not only reshaping banking practices but also contributing to the broader development of economic, educational, and service sectors. Digitalization, therefore, serves as a pivotal mechanism for enhancing efficiency, customer experience, and overall economic performance in the Islamic financial sector.

Keywords: digitalization, Islamic finance, financial technology, customer experience, digital banking

Introduction

In recent years, sharia-compliant business activities in Indonesia have experienced remarkable growth, keeping pace with the rapid evolution of digital technology. This transformation has propelled Indonesia, along with many other countries, into the contemporary era of technological advancement often referred to as the industrial revolution. (Asmuni & Arini Indika Arifin, 2023) The industrial revolution has been marked by significant technological innovations, including the development of advanced computing systems, intelligent robotics, autonomous vehicles, mobile communication devices, and other industrial equipment. Initially, these technologies still relied heavily on human cognitive capabilities for effective operation. Rapid technological change is often described as a form of creative disruption that reshapes environments through social interaction, collaboration, and interpersonal engagement. (Muhammad Ismail Sha Maulana et al., 2022).

Within the banking sector, digitalization refers to the integration of technology into banking operations to simplify and enhance customer services. By implementing innovative digital solutions, banks can significantly improve customer satisfaction and operational efficiency. Moreover, digital banking brings financial services closer to individuals living in remote areas, bridging geographical and accessibility gaps. (Tartila, 2022) Various businesses, including Islamic banking institutions, are adapting to these technological shifts as part of the broader industrial digitalization movement. (Tartila, 2022) The accelerated pace of technological advancement has pushed banks to develop digital platforms that provide seamless services, leading to an increase in digital financial transactions such as mobile payments (m-payments), online banking, electronic money (e-money), and mobile banking (m-banking). (Yasin et al., 2021)

In developing countries like Indonesia, mobile banking initially emerged as a response to gaps in formal financial institutions. Many early mobile banking services were informal, community-based initiatives that operated independently of state control or central bank regulation. These informal institutions often originated as community support mechanisms, gradually evolving into intermediary financial entities that helped alleviate financial challenges, particularly during periods of economic crisis. (Gunaepi et al., 2023)

The adoption of digital financial services offers numerous advantages, primarily because individuals can access banking networks through mobile devices and computers. The rapid development of information technology, coupled with changing consumer behaviors, has compelled banks to innovate continuously to meet customer expectations. Bank Indonesia has also defined financial technology (FinTech) as a combination of technology and financial services designed to create efficient, accessible, and innovative banking solutions. (Linton et al., 2020) FinTech has been instrumental in enhancing productivity, streamlining payment systems, and facilitating trade. Public perception plays a critical role in FinTech adoption; users are more likely to embrace these solutions when they are perceived as fast, secure, and user-friendly. (Lestari et al., 2023)

In today's modern economy, the ability to adapt to technological advancements has become essential for human progress. (Era et al., 2019) Innovations in banking technology are facilitating customer access to Islamic financial institutions, expanding their reach and improving service quality. Information and communication technologies, including the Internet of Things (IoT), are increasingly being integrated into Islamic banking operations to enhance efficiency and effectiveness. As IoT adoption grows, the potential of Islamic banks to contribute to national economic development becomes more evident.

Therefore, embracing digital transformation in Islamic banking is crucial for building a sustainable financial ecosystem. By leveraging technological innovations, Islamic banks can provide more efficient, inclusive, and effective services, while simultaneously promoting the growth of Islamic finance and economics in Indonesia. (Farhand, 2020) The strategic adoption of digital tools not only strengthens operational capabilities but also reinforces the position of Islamic banking as a key player in the modern financial landscape.

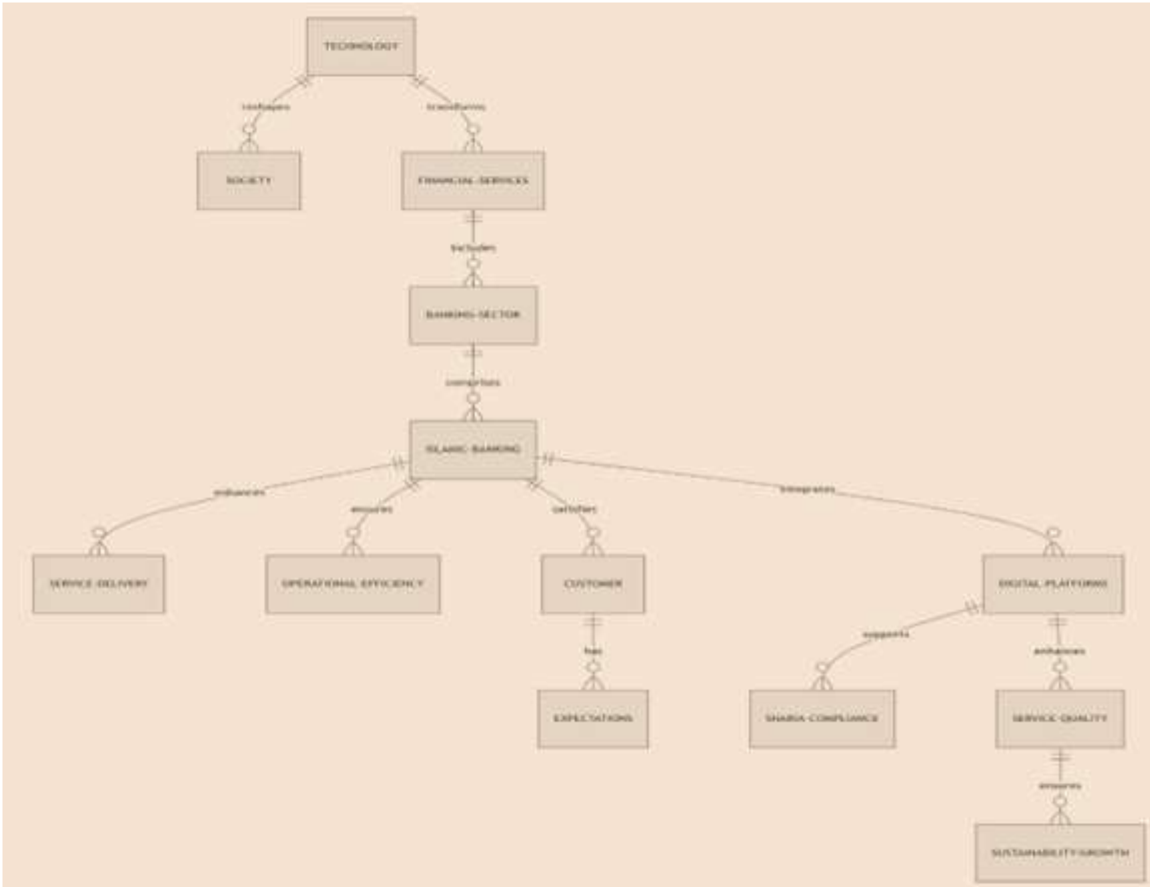
Methodology

This study is grounded in an extensive review of scholarly literature and theoretical frameworks pertinent to Islamic banking, digitalization, and technological innovation. Library-based research constitutes the foundation of this study, drawing upon a wide array of resources, including academic books, peer-reviewed journals, and other credible publications. Analytical techniques employed include descriptive and content analysis, enabling a thorough examination of concepts, propositions, and trends. The study critically evaluates and synthesizes information from multiple references to ensure a robust understanding of the subject matter, providing comprehensive insights into the digital transformation of Islamic banking.

Results and Discussion

The rapid evolution of technology has dramatically reshaped societal structures and the way financial services are delivered. In the context of the banking sector, this digital shift has become essential to meet customer expectations for speed, convenience, and flexibility. Islamic banking, traditionally rooted in Sharia principles, is no exception. It has embraced technological advancements to enhance service delivery, ensure operational efficiency, and satisfy the increasingly diverse and tech-savvy customer base.

Digitalization in Islamic banking not only supports the enhancement of service quality but also ensures the long-term sustainability and growth of the financial sector. By integrating advanced information systems and digital platforms, Islamic banks can better serve their clientele while adhering to Sharia compliance.



Principles of Islamic Banking
Principles form the foundation upon which actions, policies, and governance are built. In Islamic banking, the adoption of sound corporate governance is fundamental to aligning financial activities with Sharia principles. Islamic banks operate under a framework that strictly prohibits usury (riba), speculative transactions (gharar), and unethical business practices.

According to Indonesian Law No. 21 of 2008, Sharia Banks and Sharia Business Units (UUS) are mandated to implement effective governance encompassing transparency, accountability, responsibility, professionalism, and fairness. These principles are interpreted as follows:

1. **Transparency** – Islamic banks must disclose comprehensive financial and non-financial information, including profit-and-loss statements, balance sheets, cash flows, and accounting policies, to ensure professional and objective operations.
2. **Accountability** – Banks must remain answerable for the management of assets and conduct, maintaining full responsibility toward stakeholders.
3. **Responsibility** – Compliance with all applicable laws and regulations is mandatory,

reflecting institutional commitment to ethical and lawful conduct.

4. **Professionalism** – Operations should remain independent and objective, free from undue influence or interference from external parties.

5. **Justice and Equality** – Transactions and agreements must ensure fairness and equity, respecting the rights and obligations of all parties involved.

Challenges of Islamic Banking in the Digital Era

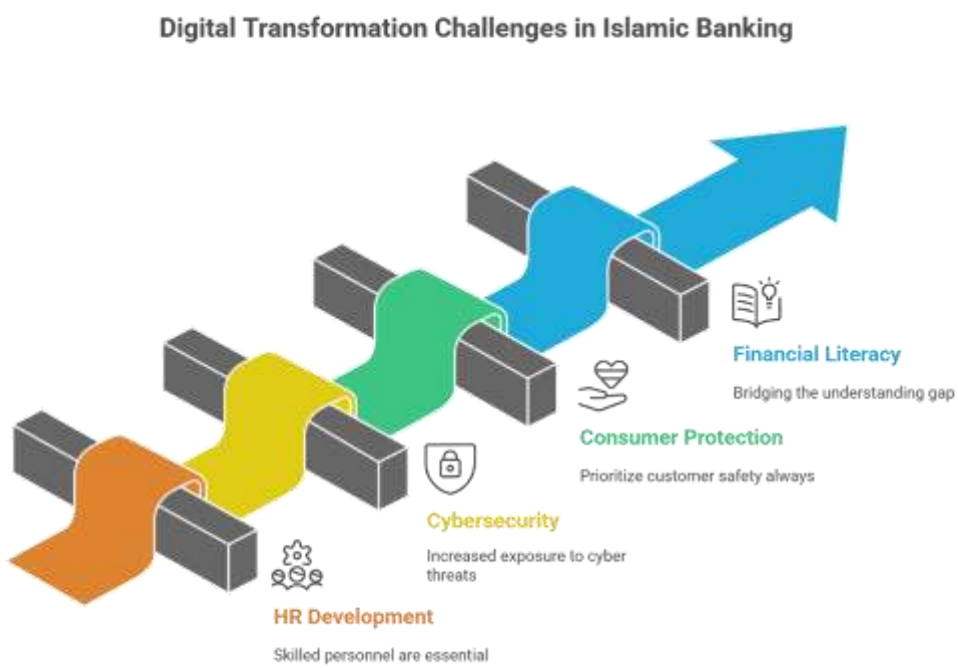
The rise of digital financial services necessitates that Islamic banks undergo a comprehensive digital transformation to remain competitive and meet customer demands for fast, secure, and accessible financial solutions. Key challenges include:

1. **Human Resource Development** – The success of digital transformation relies heavily on skilled personnel capable of managing advanced banking systems and adapting to rapid technological changes.

2. **Cybersecurity** – As digital operations expand, Islamic banks face increased exposure to cyber threats. Ensuring robust security measures, risk management, and adherence to regulatory guidelines is critical to safeguarding sensitive customer data.

3. **Consumer Protection** – Digital services must prioritize customer safety to build trust and ensure that users are protected from potential risks associated with electronic financial transactions.

4. **Financial Literacy and Inclusion** – A significant challenge is bridging the gap between digital financial services and the public's understanding of Islamic banking. Misconceptions and lack of knowledge can impede adoption, making public education and awareness campaigns essential.



Islamic banks must address these challenges through careful HR selection, strong cybersecurity protocols, effective public education, and the adoption of innovative technological solutions to maintain customer confidence and operational integrity.

Impact of Digitalization on Sustainable Finance

The digital transformation of Islamic banking has far-reaching implications for sustainable finance within the framework of Sharia principles. Technology enables greater financial inclusion, allowing broader access to Islamic financial services, particularly for populations in remote regions. Mobile and online banking platforms serve as powerful tools for financial empowerment.

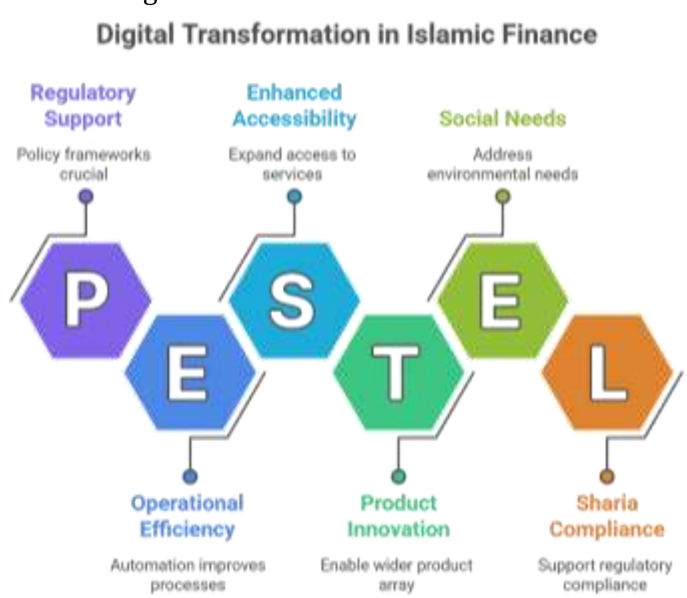
Data analytics, system integration, and process automation enhance operational efficiency and accuracy, while maintaining Sharia compliance through advanced monitoring and reporting mechanisms. Digitalization also facilitates the development of diverse financial products, such as Sukuk supporting environmental projects and Mudarabah-based financing promoting social initiatives. Collaboration with fintech companies further accelerates innovation and broadens market reach.

Supportive legal and regulatory frameworks are essential to sustain growth, ensuring that Islamic banking can embrace technological advancements responsibly while adhering to Sharia law.

Conclusion

This research provides a comprehensive overview of the transformative impact of digitalization on Islamic banking. Key findings include:

- **Enhanced Accessibility:** Digital platforms expand access to Islamic financial services, particularly in underserved regions.
- **Operational Efficiency:** Automation and data-driven processes improve internal efficiency and decision-making.



- **Sharia Compliance:** Technology supports regulatory compliance and ethical governance in line with Islamic principles.
- **Product Innovation:** Digitalization enables a wider array of Sharia-compliant financial products that address social and environmental needs.
- **Collaboration and Growth:** Partnerships with fintech and other technological innovators drive progress and broaden reach.
- **Regulatory Support:** Strong legislation and policy frameworks are crucial to facilitating sustainable digital transformation.

The study concludes that Islamic banks must embrace digital transformation strategically, ensuring alignment with Sharia principles while promoting financial inclusion and sustainable development. The insights and recommendations presented provide a roadmap for Islamic banking institutions to thrive in the digital era and contribute to a resilient and inclusive financial future.

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