

Exploring the Digital Frontier: Challenges and Opportunities in Sharia Banking Development

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Abstract. *This article is a literature review that discusses challenges and opportunities in the development of Sharia banking in the digital era. With the rapid development of technology, the Sharia banking industry is faced with various changes that affect operational methods, services, and interactions with customers. This study explores the various challenges faced by Sharia banking in the digital era, such as data security, technology integration, and regulatory adaptation. In addition, this article also discusses the opportunities that open up for the development of Sharia banking in the digital era, including the potential to increase financial access for the community, the development of innovative products and services, as well as the strengthening of relationships with customers through digital platforms. By understanding these challenges and opportunities, the Sharia banking industry can formulate the right strategy to take advantage of the potential of digitization in expanding coverage and improving sustainability.*

Keywords: *Sharia Banking, Digital Era, Challenges, Opportunities, Digitalization.*

Abstrak. Artikel ini merupakan tinjauan pustaka yang membahas tentang tantangan dan peluang perkembangan perbankan syariah di era digital. Dengan pesatnya perkembangan teknologi, industri perbankan syariah dihadapkan pada berbagai perubahan yang mempengaruhi metode operasional, layanan, dan interaksi dengan nasabah. Kajian ini mengeksplorasi berbagai tantangan yang dihadapi perbankan syariah dalam menghadapi era digital, seperti keamanan data, integrasi teknologi, dan adaptasi peraturan. Selain itu, artikel ini juga membahas peluang yang terbuka bagi perkembangan perbankan syariah di era digital, antara lain potensi peningkatan akses keuangan bagi masyarakat, pengembangan produk dan layanan inovatif, serta penguatan hubungan dengan pelanggan melalui platform digital. Dengan memahami tantangan dan peluang tersebut, industri perbankan syariah dapat merumuskan strategi yang tepat untuk memanfaatkan potensi digitalisasi dalam memperluas cakupan dan meningkatkan keberlanjutan.

Kata Kunci: Perbankan Syariah, Era Digital, Tantangan, Peluang, Digitalisasi.

INTRODUCTION

Sharia banking is a financial sector that is developing rapidly in various countries, including Indonesia. Based on Sharia principles that avoid usury (interest) and speculative activities, Sharia banking offers an ethical and sustainable alternative for customers. Along

with the rapid development of digital technology, Sharia banking faces various significant challenges and opportunities. The digital era has not only changed the way banks operate but has also changed consumer behaviour and their expectations of financial services.

On the one hand, digitalization provides great opportunities for Islamic banking to expand the range of services, increase operational efficiency, and offer innovative products that suit the needs of modern society. Technology such as mobile banking, fintech (financial technology), and blockchain can help Sharia banking provide services that are faster, more transparent, and easier to access. For example, mobile banking allows customers to make transactions anytime and anywhere without having to come to a branch office, thereby increasing customer convenience and satisfaction.

However, Islamic banking is also faced with quite a few challenges. One of the main challenges is the technology and digital literacy gap among customers. Many customers are still unfamiliar with or do not have access to digital technology, thus hampering the adoption of digital services. Apart from that, Islamic banking also has to face increasingly fierce competition from conventional banks and fintech companies that offer similar services with various competitive advantages.

Another challenge that needs to be considered is the issue of regulation and Sharia compliance. In facing the digital era, Sharia banking must ensure that all products and services offered remain by Sharia principles. This requires close supervision and a deep understanding of technology and Sharia law. In addition, existing regulations may not fully support the development of new technologies, so collaborative efforts are needed between regulators, industry and academia to create a regulatory framework that supports innovation without compromising Sharia compliance.

Through this article, we will explore the challenges and opportunities facing Islamic banking in the digital era. This research will use a library research approach, which involves reviewing literature from various trusted sources to gain a comprehensive understanding of this topic. By understanding the existing dynamics and problems, it is hoped that this research can contribute to formulating a more adaptive and innovative Sharia banking development strategy in the digital era.

This research will be divided into several parts. The first part will discuss the basic concepts of Islamic banking and the principles underlying them. The second part will explore

the development of digital technology in the banking industry and its implications for Islamic banking. The third part will identify the main challenges facing Sharia banking in the digital era, while the fourth part will examine various opportunities that can be exploited for the development of Sharia banking. Finally, this research will provide strategic recommendations for overcoming challenges and exploiting opportunities to increase the competitiveness and sustainability of Islamic banking in the digital era.

Thus, it is hoped that this research can become an important reference for practitioners, regulators and academics in developing Sharia banking that is innovative, competitive and under Sharia principles amidst the ongoing digital transformation.

RESEARCH METHODOLOGY

Islamic banking in the digital era faces various challenges, including complex regulations, lack of public understanding, technological limitations, cyber security risks, and competition with conventional banks. However, the digital era also opens up many opportunities for product and service innovation, increasing market reach, collaborating with fintech, developing a digital Sharia ecosystem, and increasing operational efficiency.

The library research methodology used in this article allows researchers to collect data and information from various relevant literature. This approach provides in-depth insight into the challenges and opportunities facing Islamic banking in the digital era. Several studies show that with the right strategy, Sharia banking can utilize digital technology to overcome challenges and maximize existing opportunities. Innovation in products and services, digital financial education and literacy, improved customer service, and enhanced cybersecurity are some of the steps that can be taken to achieve success in the digital era.

The development of Sharia banking in the digital era is not only about adapting technology but also about maintaining Sharia principles in every operational aspect. In this way, Sharia banking can continue to grow and make a positive contribution to the economy and community welfare.

DISCUSSION

Opportunities and Challenges of Sharia Banking in the Digital Era

With the emergence of digital financial innovation, which shows that the financial services sector has entered the digital era, new problems will certainly emerge. the performance of the digital population index (IKD) of Sharia banking itself. This will be seen from the opportunities and challenges posed for Sharia banking in the digital era. Among these opportunities and obstacles, there are:

1. Sharia Banking Opportunities in the Digital Era

a) The first opportunity comes from the community.

for the use of Sharia banking in the current digital era, based on the level of trust of the Indonesian people, the majority of whom are Muslim, and the large number of people who access the internet (Ulhaq, 2022). This is not the case even though Indonesia's population is dominated by Generation Z, Millennials and Generation X. As a result, they have the most prospective consumers. These three generations will have a faster ability to adapt to technological advances. This will allow Islamic banking to use technology to offer products and services that match customer expectations and needs.¹

b) Product Promotion

Islamic banking has a second opportunity to promote its products. Optimization in the digital era will allow Sharia banking to immediately advertise their goods and survey the goods that the public needs. Islamic banking will have many opportunities to promote its products if the public can easily find out about the products available in this industry.²

c) Products that the public needs

Sharia banks must have the courage to change into financial institutions that can easily provide financing to the public in this digital era because products that are known to the public will be difficult to access. This is because startup companies have taken over many of the financing functions that should be

¹Rangga Suganda et al, *Analysis of Sharia Banking Opportunities and Challenges in the Digital Era*, Scientific Journal of Islamic Economics, p 680

²*Ibid* p. 681

carried out by Islamic banks through fintech programs. As an intermediary financial institution, Islamic banks must have the ability to fulfil client desires and provide digital products. Undoubtedly, Islamic banks will see many opportunities in the financial services industry in this regard.

2. Sharia Banking Challenges in the digital era

1) Human Resources

Human resources (HR) are an important component of digital financial innovation, and Islamic banking pays great attention to HR issues. Sharia banking requires high-quality human resources to keep up with developments in the Sharia financial industry in the digital era. These human resources must understand how to run the Sharia banking system and be ready to face the challenges posed by rapid technological developments.

2) Cyber Security

The existence of IKD in the Sharia banking industry has raised concerns about cyber security. Islamic banks need to increase their awareness of cyber security considering the increasing threat of cybercrime. To ensure an effective decision-making process and the ability to detect problems and resolve them, Islamic banking must be connected to the market. Security, security compliance, commitment, budget allocation, management, and security are critical components that are critical to stopping cybercrime.

As regulated in Article 2 Paragraph 2, to face the challenges that Sharia banking must face in the current technological era regarding cyber security. According to Financial Services Authority Regulation Number 12 /POJK.03/2018, "Banks that provide Electronic Banking Services or Digital Banking Services are required to implement risk management, precautionary principles, and comply with the provisions stated in this Financial Services Authority Regulation." Information security is one of the main issues that must be considered when using technology in the Islamic banking sector in the currently developing digital era. According to the experience of Sharia Bank, in an incident that occurred in Indonesia in May 2023, the news was shocked by the hacking of a bank by hackers, which caused service disruption for days and also stole 15 million customer data. The stolen data includes names, account numbers, transaction history, account numbers, account balances, etc. After this incident, of course, it will be a challenge for Islamic banking in Indonesia to

build Cyber Security that is not easily hacked, skimmed, and safe from malware attacks. Therefore, to protect and prevent criminal activities in the world of Sharia banking, it is necessary to develop a new digital banking security system.

3) Consumer protection

The presence of digital financial innovation will increase the risks faced by banks and consumers as well. Attention to customer protection cannot be separated from the formation of a credible Sharia banking industry to increase public trust. It also protects digital banking service providers from unwanted events.

POJK No.12/POJK.03/2018 and Law No. 8 of 1999 provide preventive protection to customers regarding consumer protection, and Banking Law No. 10 of 1998. In general, the legal protection provided by banks for digital banking services includes providing information about possible losses for customers related to digital banking services, maintaining bank secrecy regarding customers' data, and requiring banks to ensure the funds of customers who use services secure digital banking.

4) Insufficient knowledge about public finances

As the current digital era develops, there are indeed differences between people who are involved in financial matters and those who understand it. Therefore, this is one of the obstacles faced by Islamic banking. Apart from knowledge about advances in digital financial technology, people often do not understand Sharia banking and consider it no different from conventional banking. This public view certainly challenges Sharia banking in taking advantage of technological advances by providing education through digital campaigns about the Sharia banking system. The problems posed by digital advances in banking will be faced with various strategies that must be used by Sharia banking, such as selecting rigorous human resources to complement its structural components, tightening cyber security that strictly safeguards consumer data, and developing a more efficient approach to overcome the current lack of knowledge in society.

CONCLUSION

The article outlines the challenges and opportunities facing Islamic banking in the digital era. The main challenges include the lack of Sharia financial literacy among the public, the technological limitations of many Sharia banks, as well as tight competition with conventional banking which was the first to adopt digital technology. Apart from that, strict and complex regulations also become obstacles in the development of Sharia banking.

However, the digital era also brings great opportunities for Sharia banking. Financial technology (fintech) and digital innovation can help Islamic banks reach more customers, increase operational efficiency, and offer products and services that are more diverse and under Sharia principles. Digital transformation can strengthen the position of Sharia banking in the global market, increase financial inclusion, and encourage broader Sharia economic growth.

SUGGESTION

1. Increasing Sharia Financial Literacy: Sharia banks need to develop comprehensive education programs to increase public understanding of the principles of Sharia banking and its benefits. This can be done through seminars, workshops and digital campaigns.
2. Invest in Technology: Islamic banks must invest in the latest technology to improve their digital infrastructure. This includes the development of mobile applications, online platforms, and the use of blockchain technology to ensure secure and transparent transactions.
3. Collaboration with Fintech: Islamic banks can collaborate with fintech companies to develop innovative products and services that comply with Sharia principles. This collaboration can accelerate the adoption of digital technology in Sharia banking operations.
4. Supportive Regulations: Efforts are needed from regulators to simplify regulations and provide incentives for Islamic banking to adopt digital technology. Regulations that are more flexible and support innovation will accelerate the development of Sharia banking.
5. Increasing Human Resource Competency: Sharia banks need to increase employee competency in the fields of technology and Sharia finance through training and certification. This will ensure that they are ready to face digital challenges and can provide the best service to customers.

With these strategic steps, Islamic banking can overcome existing challenges and take advantage of opportunities in the digital era to develop more rapidly and make a significant contribution to the global economy.

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