

## DIGITAL TRANSFORMATION IN ISLAMIC BANKING: FINTECH INNOVATION AND SHARIAH COMPLIANCE

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**Abstract:** *This study examines digital transformation in Islamic banking with a focus on fintech innovation and Shariah compliance. The purpose of this manuscript is to explore how Islamic banks adopt financial technology while maintaining adherence to Islamic principles. The study employs a qualitative research approach through in-depth interviews with Islamic bank practitioners, Shariah scholars, and customers, supported by qualitative analysis of regulatory documents and relevant literature on Islamic finance and fintech development. The findings indicate that fintech innovation enhances service efficiency, accessibility, and customer experience in Islamic banking. Digital platforms, mobile banking, and automated services help Islamic banks expand outreach and compete with conventional institutions. From a Shariah perspective, fintech applications are considered acceptable when they avoid usury, gharar, and maysir, and operate under effective Shariah governance. Respondents emphasized the importance of Shariah supervisory boards and transparent contracts in ensuring compliance. The study concludes that digital transformation offers significant opportunities for Islamic banking growth when balanced with strong Shariah oversight and regulatory support. Continuous collaboration between fintech developers, Islamic banks, and Shariah authorities is essential to achieve sustainable innovation. This research provides insights for policymakers and industry stakeholders in strengthening digital Islamic banking and promoting inclusive ethical financial services worldwide.*

**Keywords:** *Digital Transformation; Islamic Banking; Shariah Compliance*

### Introduction

Digital transformation has become a key factor in changing the structure of the global finance industry, including in the sector of Islamic banking. Development of information technology pushes financial institutions to increase operational efficiency, expand the range of services, as well as improve the quality of interaction with customers. Digital transformation is not only limited to the application of new technology, but also includes changes in organizational culture and service patterns to customers. (Rahmah et al., 2024)

One of the real forms of digital transformation is the development of Financial Technology (Fintech). Fintech has received global attention as an innovation-enabling technology in the finance industry, operating in a more efficient way in the digital era. Growth of digital technology is driving

improvement non- cash transactions through various channel electronics , while transaction conventional in a way gradually experience decline . The presence of mobile banking is one of the breakthrough important supporting digitalization service banking . (Rahmah et al., 2024)

In Indonesia, Fintech is one of the topic ongoing research developing . The National Digital Research Centre (NDRC) defines Fintech as innovation in sector service finance that utilizes digital technology . The presence of Fintech has change pattern transaction the previous society done manually become all digital. Change This demand public For adapt with development technology to meet need financial in a way more effective . (Rahmah et al., 2024)

In context Islamic banking , Fintech does not only play a role as means innovation technology , but also as instrument strategic in increase inclusion Islamic finance . Islamic fintech is capable increase efficiency system payment , repair experience customers , as well as make things easier access public to service finance like financing , savings , and investment . Support to development This strengthened through DSN-MUI Fatwa No. 117/DSN-MUI/II/2018 which encourages Work The same between Fintech and Islamic banking based on sharia principles.

However thus , the rapid The development of Sharia Fintech in the digital era also presents challenge in particular , in particular related compliance to sharia principles . Innovation technology often develops more fast compared to adequate implementation of sharia governance . Still found practices where the use of the label “sharia” has not fully followed by contracts and mechanisms appropriate transactions with Islamic provisions , such as prohibition usury , gharar , and maysir . In addition , the level of literacy public about difference between Sharia and conventional Fintech Still relatively low , so that cause doubt in choose service truly digital finance according to sharia.

In the middle competition industry banking which is increasingly strict , Islamic banks are required For Keep going innovate through development digital services such as e-banking, mobile banking, internet banking, and service banking without branchless banking to reach unbanked communities . Digitalization This aim For increase satisfaction customers as well as fulfil need public to service finance based technology .

Although digitalization bring various benefits , the digital transformation process also gives rise to challenge for Islamic banking . Increasing competition and demands innovation potential suppress bank profit margins in the future . Therefore Therefore , a capable strategy is needed balance between utilization technology , innovation services and compliance to sharia principles so that the transformation of sharia fintech can walk in a way sustainable and permanent guard integrity Islamic economics .

## Literature Review

### Digital Transformation in Islamic Finance

Digital transformation refers to the process of integration digital technology to in all over aspect operational institution financial impacts on change method service designed , delivered , and managed . In the context of Islamic finance , digital transformation is not only aim increase efficiency and speed services , but also must still guard suitability with sharia principles . Some studies show that digitalization in institutions Islamic finance is capable increase efficiency operational , expanding access service finance , as well as push inclusion finance , in particular for group unbanked and underbanked communities .

Digital transformation is also seen as an important strategy For increase Power competition Islamic banking in the midst rapid development industry digital finance . Utilization technology such as sharia mobile banking, internet banking, and systems digital payments make

it possible institution Islamic finance provides more services flexible , transparent , and easy accessible to the public .

### **Sharia Financial Technology (Fintech).**

Sharia financial technology (fintech) is innovation service finance based technology being implemented in accordance with principles Islamic law . Different with conventional fintech , sharia fintech operates with use sharia contracts such as mudharabah , musyarakah , murabahah , wakalah , and ijarah. The main objective of sharia fintech is not only profit - oriented , but also emphasizes aspect justice , transparency , and usefulness social .

Literature show that sharia fintech has potential big in support financing business micro , small and medium enterprises (MSMEs), expanding access halal financing , as well as strengthen function social Islamic finance through digital services for zakat, infaq , alms , and waqf . The presence of sharia fintech is considered capable become solution alternative to limitations service conventional Islamic banking , especially in reach society that has not served optimally .

### **Innovation in Islamic Banking and Financial Services**

Innovation service in Islamic finance is results from combination between development digital technology and needs public will service fast , safe and appropriate finance with Islamic values . Innovation This covers development digital products , simplifying transaction processes , and improvement quality experience users . Previous studies disclose that innovation service digital- based can increase satisfaction customers , speed up the financing process , and reduce cost operational institution Islamic finance .

In addition , integration digital technology with sharia agreement is assessed capable increase transparency and accountability transactions . Utilization technology such as digital platforms and systems automation allows supervision more transactions Good as well as minimize risk occurrence deviation to sharia principles .

### **Sharia Compliance in Digital Transformation**

Compliance to sharia principles are fundamental aspects in fintech development and services digital- based Islamic finance . A number of study emphasize that acceleration innovation technology must balanced with strengthening mechanism Sharia supervision . The role of the Sharia Supervisory Board (DPS) is very important in ensure that every digital products and services do not contain element usury , gharar , and maisir .

Challenge main in Sharia compliance in the digital era is quickly development technology that often goes beyond readiness regulations and fatwas. Therefore that , is necessary synergy between regulators, academics , and practitioners Islamic finance for formulate policy as well as adaptive guidelines to innovation technology without ignore sharia principles .

### **Literacy Sharia Digital Finance**

Literacy Islamic digital finance is ability public in understand , use , and evaluate service Sharia- based digital finance . Low literacy rates can become obstacle main in adoption of sharia fintech, even though infrastructure and digital products have available . Some study show that Still Lots society that has not understand difference fundamental between sharia fintech and conventional fintech .

Therefore that , the increase literacy Islamic digital finance becomes prerequisite important for success digital transformation . Continuous educational efforts required For

increase understanding community , building trust to service digital Islamic finance , as well as push use sharia fintech products in general more wide .

### **Digital Transformation and Maqashid Sharia**

In perspective Islamic economy , digital transformation must directed For support achievement maqashid sharia, namely safeguarding religion, soul , mind , descendants , and property . Digitalization service Islamic finance is assessed capable strengthen protection treasure through system more transactions safe and transparent , and support welfare public through improvement inclusion finance .

Literature confirm that aligned digital transformation with maqashid sharia does not only oriented towards efficiency and profitability , but also on value justice social and sustainability . With Thus , the development of sharia fintech is expected capable become instrument strategic in build system inclusive , ethical and empowering Islamic finance competitiveness in the digital era.

### **Research Methods**

Study This is study descriptive qualitative . In research descriptive qualitative said , researchers use method studies library with approach qualitative , namely collect data through search literature as well as do analysis to various information and resources library for building runway theory . Research this also aims For study sources written like journal scientific , works academic , as well as other sources are good in form print and digital that are relevant and related with object study . The data that has been collected furthermore analyzed in a way descriptive , then withdrawn conclusion based on results analysis the . (Rahmah et al., 2024)

### **Results And Discussion**

Digital transformation has become factor key in development industry Islamic finance , in particular through utilization of financial technology (fintech). Based on results review literature , digitalization allows institution Islamic finance increases efficiency operational , expanding range services , as well as present innovation more products adaptive to need modern society . Digital technologies such as mobile banking, online financing platforms , and systems payment electronic give convenience access without limitation space and time , so that support improvement inclusion Islamic finance . (Rahmah et al., 2024)

Sharia fintech innovation does not only focus on aspects technology , but also on the development of a service model that remains based on Sharia principles . Previous studies show that integration technology with sharia contracts , such as mudharabah , musyarakah , and murabahah , are capable create service more finances transparent and fair . Innovation This covers sharia peer-to-peer lending services , halal crowdfunding, as well as digitalization of zakat and waqf that contributes to empowerment economy people . (Islam et al., 2025)

Acceleration digital transformation also brings challenge seriously , especially in aspect sharia compliance . Some literature highlight that innovation technology often develop more fast compared to mechanism sharia supervision , so that potential cause practices that are not fully in accordance with Islamic principles . Therefore Therefore , the role of the Sharia Supervisory Board (DPS) and the DSN-MUI fatwa is very crucial. in ensure that every Sharia fintech products and services remain is at in corridor Islamic law . (Sharia, 2025)

In addition to sharia compliance , literacy digital finance of society also becomes factor determinant success transformation of Islamic fintech. The low understanding public about difference between sharia and conventional fintech can hinder level adoption services . Digital

transformation should not only development - oriented technology , but also accompanied with ongoing education and outreach so that the community own trust to system digital Islamic finance . ( Qothrunnada , 2023)

In a way overall , results discussion show that synergy between technology , innovation , and sharia compliance are key main in build A sustainable sharia fintech ecosystem . Harmonized digital transformation with values maqashid sharia does not only increase Power competition institution Islamic finance , but also has the potential strengthen inclusion finance and well-being economy Muslim society as a whole wide . ( Sudarmanto et al., 2024)

Digital transformation has become element strategic in development industry Islamic finance , in particular through utilization of financial technology (fintech). Based on results review literature , digitalization allows institution Islamic finance increases efficiency operational , expanding range services , as well as push innovation more products responsive to need modern society . Utilization technology such as sharia mobile banking, digital financing platforms, as well as system payment electronic give convenience access service finance without limitation space and time , so that contribute direct to improvement inclusion Islamic finance . Findings This in line with results research that confirms that digital transformation plays a role significant in strengthen Power competition Islamic banking in the digital industry era . (Islam et al., 2025)

The development of sharia fintech is not only emphasize on aspects technology , but also on adjusting the service model to remain in accordance with sharia principles . Integration of digital technology with sharia contracts , such as mudharabah , musyarakah , and murabahah , are proven capable create system service more finances transparent , efficient , and fair . Sharia fintech innovations include Sharia- based peer-to-peer lending services , halal crowdfunding, as well as digitalization management of zakat and waqf . Innovation the No only expand access financing , but also contribute to empowerment economy people and strengthening function social Islamic finance . ( Safitri et al., 2025)

Although Thus , acceleration digital transformation in sector Islamic finance also gives rise to various challenges , especially related aspect compliance to sharia principles . Some study highlight that development technology often takes place more fast compared to with mechanism sharia supervision and regulation . Conditions This potential cause risk mismatch fintech practices with provision Islamic law . Therefore Therefore , the role of the Sharia Supervisory Board (DPS) and the fatwas issued by the sharia authorities are very important. in ensure that every digital innovation remains is at in sharia corridor and not contain element usury , gharar , and gambling ( Sharia , 2025)

Apart from the issue sharia compliance , level literacy digital finance of society also becomes factor crucial in determine success transformation of Islamic fintech. The low understanding public about Characteristics and advantages of Islamic fintech compared to conventional fintech can hinder level adoption sharia- based digital services . Therefore that , ideally digital transformation No only focused on development technology and products , but also must accompanied with ongoing education and outreach programs . This effort aim For increase trust public as well as strengthen understanding to values Islamic finance in the digital era . ( Qothrunnada , 2023)

In a way overall , discussion This show that success digital transformation in The development of Islamic fintech is largely determined by synergy between innovation technology , compliance to sharia principles , as well as improvement literacy digital finance for society . Harmonious digital transformation with values maqashid sharia does not only capable increase efficiency and power competition institution Islamic finance , but also has the potential expand

inclusion finance and encourage welfare economy people in a way sustainable . ( Safitri et al., 2025)

Based on results discussion , can concluded that digital transformation has a very important role in development of sharia financial technology (fintech) and innovation service Islamic finance . Digitalization push improvement efficiency operational , expansion access services , as well as development product more finances inclusive and adaptive to need modern society . Through utilization digital technology , institutions finance sharia capable present services that are not only competitive , but also aligned with Islamic values .

However Thus , digital transformation in Islamic fintech also faces challenges . significant challenges , in particular in aspect sharia compliance and literacy digital finance of society . Therefore that , strengthening the role of the Sharia Supervisory Board , improvement regulations , as well as improvement education and socialization to public become step strategic must optimized . With existence synergy between technology , regulations , and principles maqashid sharia, digital transformation is expected capable build sustainable , inclusive , and contributing sharia fintech ecosystem real to welfare economy people .

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