

# Accommodating Digital Transformation in Sharia Financing of Sharia Financial Institutions: Indonesian Case

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## **Abstract**

Transformation in the Digital Age has emerged as a pivotal focus within the global financial sector, particularly concerning sharia financing. With technology advancing rapidly, Sharia financial institutions encounter novel challenges in upholding sharia principles while integrating digital solutions. This study endeavors to scrutinize the ramifications of digital transformation on sharia financing practices and delve into the adaptation strategies employed by sharia financial institutions to confront these changes. Employing qualitative research methods, this investigation synthesizes a myriad of scholarly sources alongside insights from sharia financial institutions, sharia scholars, and financial technology experts. The findings underscore the imperative for a coherent regulatory framework that accommodates digital transformation in sharia financing. Moreover, enhancing public education and comprehension concerning digital sharia financing emerges as a pivotal concern to expedite technological adoption and ensure the enduring viability of this transformation.

**Keywords:** *transformation, digital age, sharia financing*

## **INTRODUCTION**

With the development of digital technology, the global financial industry has undergone a significant transformation (Gomber et al., 2018). In the midst of these changes, financial institutions based on Islamic principles are also faced with pressure to adapt to rapid technological developments (Alam et al., 2019, p. 4). Sharia financing as an important part of the sharia-based economy faces challenges in maintaining compliance with sharia principles while adopting digital innovations (Rabbani, 2022). Therefore, a deep understanding of the ways in which digital transformation affects Islamic financing practices, as well as the role of technology in facilitating or hindering compliance with Islamic principles, is required (Alam et al., 2019, p. 4).

The application of digital technology in sharia financing involves not only technical considerations, but also very important aspects of sharia compliance (Pati et al., 2021). A number of issues arise regarding how digital technology can be used to speed up the financing process, increase transparency, and at the same time ensure that transactions remain in accordance with sharia principles (Hidayah, 2014). Limited understanding of the balance between technology and sharia law, as well as low awareness of adaptation needs in the digital age, have given rise to its own complexities that need to be resolved (Ramadan, 2009, p. 33).

In the realm of Sharia finance, where adherence to Islamic principles is paramount, accommodating digital transformation is not merely a choice but a necessity for Sharia Financial Institutions (SFIs) (Othman & Ameer, 2015). This research delves into the importance of embracing digital transformation in Sharia financing, highlighting its benefits and addressing potential challenges.

First and foremost, embracing digital transformation enhances accessibility and inclusivity in Sharia finance (Rabbani et al., 2021). Digital platforms enable SFIs to reach a broader audience, including those in remote or underserved areas. Through online banking services and mobile applications, individuals can access Sharia-compliant products and services conveniently, transcending geographical barriers (Othman & Ameer, 2015). This expanded reach not only fosters financial inclusion but also promotes the principles of Islamic finance to a wider demographic (Rabbani et al., 2021).

Digitalization fosters operational efficiency and cost-effectiveness within SFIs. Automated processes streamline various banking operations, ranging from account management to transaction processing, reducing the reliance on manual labor and paperwork (Oladapo et al., 2021). Embracing technologies such as artificial intelligence and blockchain enhances the speed and accuracy of financial transactions while ensuring compliance with Sharia principles. As a result, SFIs can allocate resources more efficiently, optimize their operational costs, and offer competitive rates to their customers (Chong, 2021).

Digital transformation enhances transparency and trust in Sharia finance (Ali et al., 2021). Blockchain technology, with its immutable ledger system, provides a transparent record of financial transactions, eliminating discrepancies and fostering trust between SFIs and their clients (Kirchner, 2020). Smart contracts, powered by blockchain, facilitate Sharia-compliant agreements, ensuring that financial transactions adhere to Islamic principles such as risk-sharing and asset-backed financing. By leveraging these technologies, SFIs can enhance their credibility and attract both Islamic and conventional investors seeking ethical and transparent financial solutions (Kılıç & Türkan, 2023).

Despite the myriad benefits, SFIs may encounter challenges in accommodating digital transformation. One of the primary concerns is ensuring compliance with Sharia principles in the digital realm. As technology evolves rapidly, SFIs must continuously assess and adapt their digital platforms to align with Islamic jurisprudence, particularly concerning issues such as *riba* (interest), *gharar* (uncertainty), and *haram* (forbidden) transactions. Additionally, cybersecurity emerges as a critical aspect, as SFIs must safeguard sensitive financial data and protect against cyber threats to maintain trust and credibility among their clientele (Kirchner, 2020).

This research is to gain a deeper understanding of the impact of digital transformation on Islamic financing practices, as well as adaptation efforts that have been carried out by Islamic financial institutions. By analyzing the factors influencing this transformation, including technical aspects, sharia compliance, regulation, and consumer behavior, this research is expected to provide valuable insights for practitioners, academics, and policymakers in the field of Islamic finance. Through a deeper understanding of these changes, it is expected to develop a framework that enables Islamic financial institutions to effectively integrate digital

innovations in their financing practices, while ensuring adherence to fundamental Islamic principles.

## METHOD

This research is qualitative research using a literature review approach, by collecting various reference sources for books or other reading sources and as other data sources related to this article. The data analysis method used in this study is a qualitative method, which is an activity to explore and understand the meaning of a number of individuals or groups of people who have the capacity of the social problem to be studied

## RESULTS AND DISCUSSION

### Digital Services

Based on the Financial Services Authority Regulation Number 12 / POJK.03 / 2018 concerning the Implementation of Digital Banking Services by Commercial Banks (POJK LPD), digital banking services are electronic banking services by optimizing the use of data owned by customers in order to serve customers faster, easier, and in accordance with customer needs, and can be done independently while still paying attention to security aspects (Aripin et al., 2022).

In the guidelines for implementing digital branches of the Financial Services Authority (OJK). Digital services are banking services or services carried out independently by customers using electronic or digital media owned by the bank so that customers can obtain information, communicate directly, and open accounts, conduct banking transactions and close accounts.

Based on POJK LPD, digital banking is a development of electronic banking services (Fasa, 2020). Some examples of e-banking services available at Islamic banks include Automated Teller Machine (ATM) and Cash Deposit Machine (CDM), Telephone Banking, Short Messages. Banking (SMS), Electronic Data Capture (EDC), Internet Banking and Mobile Banking. This type of electronic payment service forms a network for distributing banking services to customers. This service creates a physical service. This non-physical service is better known as digital service. So, e-banking can be likened to a room and digital banking is the content of the room.

Bonang (2017) stated that e-banking services have provided convenience for anyone, anywhere, and anytime and for 24 hours can be accessed. However, in reality problems with e-banking services are inevitable. Banking as an e-banking service provider must be able to improve the quality of service so that customers do not move to use other banking services (Mariati, 2020). Digital banking services provided and implemented by independent banks can take the form of:

### Account Administration

Account management includes a number of banking services carried out independently by customers, including the use of electronic means to open accounts, update customer data, and close accounts. These accounts can be savings accounts, checking / savings / time deposit

accounts, credit / financial accounts and administrative transactions such as bank guarantees, L/C and other loans.

#### Transaction Authority

Transaction authority is a bank service in the activity of identifying the validity of transactions carried out independently by customers. The transaction authority includes both financial and non-financial transactions.

#### Financial Management

Financial management is a bank service in order to provide alternative solutions for customers in analyzing and planning customer finances so that decisions on managing and using customers' finances can be made more wisely.

#### Other Financial Product Services Based on OJK Approval

Services included in digital banking services with other forms of financial product services are services other than those mentioned above (e.g., account administration, transaction authorization, and financial management). This type of LPD is the most widespread type of LPD because it is not limited by certain types of services. This is a direct impact of advances in information technology in the banking sector which continues to grow rapidly so that it requires more adaptive arrangements.

The verification process of information and supporting documents of customers or prospective customers carried out by the Bank must be carried out by: (Tarigan & Paulus, 2019):

1. By doing face-to-face (face-to-face) or the bank provides software or hardware and the customer provides the device. For example, banks provide ATMs that are accompanied by video banking applications that are directly connected in real-time online with bank employees or customers using mobile phones that have it can communicate directly through face-to-face through video call facilities with bank employees directly.
2. Not through face-to-face but using software and hardware owned by the bank or hardware owned by customers. For example, banks provide ATMs equipped with fingerprint scanners and identity card scanners or banks create applications or websites that can be accessed by customers through their mobile phones anytime and anywhere.

Furthermore, banks must pay attention to the authenticity factor in confirming and validating through electronic media. The authenticity factors in question include:

1. What factors do you know (what you know), customers must ensure the things they must know correctly and only known by the person concerned such as PIN number, identity card number, birth mother's name and other personal data.
2. What factors do you have (what you have), customers must ensure that some hardware that has been given by the bank remains with them such as ATM cards, token devices for transactions and other devices including devices owned by customers such as digital signatures.
3. Your characteristic factor (what you are), which is a special characteristic that is only owned by customers and difficult to duplicate such as fingerprints, irises, voice, facial pieces and so on.

According to Radiansyah (2016), the financial industry is one of the targets of exploitation by frauders. Banking services as financial transaction services that have many users are not spared from cyber crimes committed by frauders such as using fake website pages to trick and steal personal data of (phishing users) (Aripin et al., 2022). Phishing can be prevented by increasing user education on the threat of phishing attacks and prevention, classifying email as a phishing prevention filter, using anti-phishing software and using OTP (one time password) in online banking services.

#### Development of Sharia FinTech in Indonesia

Over the past few decades, Islamic Fintech has evolved significantly thanks to the development of information technology and the need to integrate Islamic finance principles into financial services. Islamic fintech represents an exciting meeting point between technological innovation and a commitment to fair and ethical financial principles. In this essay, I will discuss the growth of Islamic Fintech, its economic implications, as well as the challenges faced and possible solutions that will be required.

It is important to note that Sharia Fintech has played an important role in increasing access to financial services for people that were not previously covered by the conventional banking system. With the adoption of digital technology, Islamic financial services have become more accessible, even by those living in remote areas. This has opened up opportunities for broader financial inclusion and promoted inclusive economic growth.

However, a number of challenges also arise along with the development of Fintech Shari'ah. One of them is the issue of compliance with Sharia principles which requires close supervision. It is important for regulatory agencies to develop appropriate frameworks that enable innovation without compromising adherence to Shariah principles. In addition, greater awareness among the public related to the principles of Islamic finance and its benefits also needs to be increased.

Meanwhile, the benefits of the development of Fintech Shari'ah cannot be ignored. This has enabled the growth of Sharia-based economic sectors, increased accessibility of financial

products that comply with Shariah principles, and expanded access to financial services for previously marginalized communities. Thus, Fintech Shari'ah not only has the potential to encourage financial inclusion, but also to promote sustainable and inclusive economic development in various countries.

To overcome the challenges faced, cooperation between financial institutions, governments, and communities is very important. Proper implementation of regulations and strict supervision need to be considered to ensure compliance with Shariah principles. In addition, broader education and campaigns to raise public awareness about the benefits and principles of Shari'ah Fintech will help develop better understanding among the wider community.

The development of Shari'ah Fintech has paved the way for broader and sustainable financial inclusion, while promoting fair and ethical financial principles. With cooperation and a comprehensive approach, Fintech Shari'ah can be a catalyst for inclusive and sustainable economic growth in various parts of the world.

In the next five years, according to Cekindo' s 2018 records), an estimated US\$500 billion will be invested to develop the infrastructure treated for FinTech in Indonesia. Since 2015, FinTech startups in Indonesia have grown by 78% with the increasing lending, card and payment market. Amarta, Gopay from Gojek, Keuanganku, Midtrans, T-Cash and Doku are some of the FinTech companies seen in Indonesia offering financial services. Meanwhile, the well-established banking and finance sector in Indonesia is dominated by four major banks, three are state-owned banks, Bank Mandiri, Bank Rakyat Indonesia and Bank Negara Indonesia and one private bank, namely Bank Central Asia.

### Sharia Financing

Financing is funding provided by one party to another party to support planned investments, either carried out alone or by the institution (MBA, 2012). In other words, financing is funding issued to support a planned investment. In Law Number 10 of 1998, it is stated that financing based on the principle of shari'ah is the provision of money or bills likened to it based on an agreement or agreement between the bank and other parties that requires the financed party to return the money or bills after a certain period of time in exchange or profit sharing.

In making loan payments with a value different from the value of the loan and predetermined, it is not allowed. That is, there should be no additional in repaying the loan because the additional is equal to usury. Riba is forbidden in Islam. Technically, usury can be defined as anything big or small, money or non-money, more than the principal of the loan owed by the borrower to the lender. Riba is an income obtained arbitrarily or unfairly (dholim) from one party to another. In making a loan must pay attention to the foundation of the Qur'an and Hadith regarding the prohibition of riba:

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

"O believers! Do not eat usury multiplied and fear Allah so that you may be lucky". (QS. Al-Imran: 130)

عَنْ سَعِيدِ بْنِ زَيْدٍ عَنِ النَّبِيِّ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ أَنَّهُ قَالَ مِنْ أَرْبَى الرَّبَا الْإِسْتِطَالَةُ فِي عِرْضِ مُسْلِمٍ بغيرِ حَقِّ وَإِنَّ هَذِهِ الرَّحِمَ شَجْنَةٌ مِنَ الرَّحْمَنِ فَمَنْ قَطَعَهَا حَرَّمَ اللَّهُ عَلَيْهِ الْجَنَّةَ

"It is from Sa'id bin Zayd of the Prophet sallallahu 'alaihi wasallam, that he said: "Indeed, the worst riba is to damage the honor of a Muslim without rights, and indeed the womb is intertwined by Ar Rahman, whoever decides it will surely Allah forbid for him heaven." (Ahmad, Chapter Musnad Said bin Zaid, no. 1564).

The Important aspects of Shari'ah financing(Umam, 2013):

1. Islamic financing is based on the principles of justice and sustainability. The principle of fairness ensures that financial transactions are conducted fairly and without exploitation. This includes the sharing of risk and benefits between the parties involved in the transaction. Sharia financing also promotes sustainability through sustainable and socially responsible investment.
2. Islamic financing emphasizes transactions related to real assets. That is, the financing is based on real assets that can be identified and have intrinsic value and not on simple financial instruments. Therefore, Islamic financing encourages sustainable economic growth by directing capital to practical and productive sectors.
3. The principle of prohibiting riba or interest is the main pillar of Islamic finance. Loan sharking is considered an unfair and socially detrimental practice because it adds to the cost of borrowing money. In contrast, Islamic financing facilitates transactions based on the concept of profit sharing or fair profit sharing among the parties involved.
4. Islamic financing also encourages the development of financial instruments in accordance with Islamic principles. Examples are sukuk (Islamic bonds), murabahah (buying and selling when prices rise), mudarabah (investment cooperation between investors and managers) and musharakah (cooperation between two or more parties).
5. It should be noted that Islamic finance does not only pay attention to financial aspects, but also prioritizes social, moral, and ethical values in every transaction. This ensures that economic activities are carried out with due regard to the welfare of society as a whole, while considering the social impact of any financial decisions. Overall, Islamic finance plays an important role in promoting fairness, transparency, and sustainability in the financial system. By adhering to Islamic principles, Islamic finance can be an effective tool to create a sustainable and inclusive economy that benefits the entire society.

#### Characteristics of the Use of Sharia Financing

Based on OJK regulation Number 31/POJK.05/2014 concerning the implementation of sharia financing business, the implementation of sharia financing activities must comply with the

principles of justice ('adl), balance (tawazun), benefit (maslahah), and universalism (alamiyah) and does not contain gharar, maysir, usury, zhulm, risywah, and illicit objects. Financing is one of the main tasks of the bank, namely the provision of funds to meet the needs of parties who need financing. According to the nature of its use, financing can be divided into two things (Umam, 2013):

1. Productive Financing, which is financing shown to meet production needs in a broad sense, namely to increase business, both production, trade, and investment. According to its needs, productive financing can be divided into the following two things:

a. Working Capital Financing, namely financing to meet trade needs and increase production, both the amount of production results, as well as improving the quality of production quality. Therefore, working capital financing is one combination of liquidity financing, receivables financing and inventory financing. Sharia banks can help meet all working capital needs not by lending money, but by establishing partnership relationships with customers, where banks act as funders (shahibul maal), while customers as entrepreneurs (mudharib) or commonly referred to as mudharabah (trust financing).

b. Investment Financing, namely to meet the needs of capital goods. This financing is provided to customers for investment purposes, namely the need to increase capital to carry out rehabilitation, business expansion, or the establishment of new projects. The characteristics of investment financing for the procurement of goods, have a careful and directed fund allocation plan, and medium- and long-term periods.

2. Consumer Financing, which is financing used to meet consumption needs that will be used up. Consumption needs can be divided into:

a. Primary needs, namely basic needs in the form of goods, shelter and in the form of services such as education and medicine.

b. Secondary needs, namely additional needs that are quantitatively or qualitatively higher or more luxurious than primary needs, whether in the form of goods such as vehicles, jewelry or services such as education, tourism and so on.

### Elements of Shariah Financing

In sharia financing, there are the following elements (Umam, 2013):

1. Islamic banks: Business entities that provide financing to other parties who need funds.

2. Trust: Provide confidence to the party receiving the financing that the partner will fulfill the obligation to return funds from Islamic banks in accordance with the predetermined period.

3. Contract: Contract agreement or agreement made by Islamic banks and customers

4. Period: The period of time required by the customer to repay the financing that has been provided by the Islamic bank.

#### Types of Sharia Financing

Sharia financing follows Islamic principles that prohibit riba (interest) and transactions containing elements of ribawi. Therefore, sharia financing uses various types of contracts (agreements) that comply with sharia principles. Here are some types of contracts commonly used in sharia financing (Umam, 2013):

1. Murabahah

Murabahah is a contract to buy and sell an item by affirming its purchase price (acquisition price) to the buyer and the buyer pays it at an excess price (margin) as profit in accordance with the agreement of the parties.

Example: A customer applies for financing to a sharia bank to buy a motor vehicle. Then the Bank buys the vehicle and resells it to the customer at a disclosed profit (margin).

2. Mudharabah

Mudharabah is a business cooperation agreement between two parties where the first party (shahib mal) provides all capital, while the second party (mudharib) acts as the manager, and the business profits between them are in accordance with the agreement of the parties.

Example: An investor provides capital for a business project to an entrepreneur who will manage the project. The profit will be divided according to the agreement, but if the project incurs a loss, the loss will be borne by the investor.

3. Musharakah

Musharakah is financing based on a cooperation agreement between two or more parties for a particular business, where each party contributes funds provided that profits and risks will be borne jointly in accordance with the agreement of the parties.

Example: Two or more capital owners decide to invest together in a business project. They share capital and management responsibilities and share profits according to the agreement.

4. Ijarah

Ijarah is the transfer of the right of use (benefit) of an item within a certain period of time with the payment of rent (ujrah), without being followed by the transfer of ownership of the item itself. For example, the owner of an asset rents the asset to another party for a certain period of time at a specified rental fee.

5. Wakalah

Wakalah is the granting of power of attorney from the grantor of power (muwakkil) to the power of attorney (representative) in terms that can be represented, where the power of attorney (representative) does not bear the risk of what is represented, except because of negligence or default. agent or representative agreement. In Islamic financing, it is used when a person acts as a representative to conduct transactions on behalf of a client or customer. Example: A person appoints a representative or agent to carry out a sale and purchase transaction of land or property on his behalf.

6. Akad Qardh

Qardh is a loan and loan (bailout) without compensation with the obligation of the borrower to return the principal in a lump sum or installments within a certain period of time. Example: An Islamic bank provides a qardh loan to an individual who needs an emergency fund. The funds must be returned by the individual within a certain period of time, without additional interest.

7. Akad Salam

Akad Salam is a purchase agreement in which the buyer pays an upfront amount of money to acquire the goods in the future. Example: A farmer wants to sell his crop in the future. An investor or buyer agrees to pay an upfront amount to the farmer to obtain the crop at a predetermined time. It is used in agricultural or commodity financing.

8. Akad Istishna

Akad Istishna is an agreement for the manufacture of goods according to certain specifications in the future. The maker of the goods (manufacturer) agrees to make the goods according to the specifications agreed with the buyer. Example: A company wants to manufacture special industrial equipment according to certain specifications. The company signs istishna agreements with manufacturers to manufacture such equipment according to specified specifications. Payment will be made after production is completed.

## Development of Sharia Financing Products in the Digital Era

Islamic financing has evolved along with the advancement of digital technology. Here are some types of digital sharia financing products:

1. Sharia Peer-to-Peer (P2P) Lending

Sharia P2P lending platform connects borrowers with online lenders (investors) (Baihaqi, 2018). This transaction is based on sharia principles, and profits and risks are shared fairly between the parties involved. Sharia Peer-to-Peer (P2P) Lending Platform uses several types of contracts (agreements) that are in accordance with sharia principles in its operations. One of the contracts commonly used in Sharia P2P Lending is the "Wakalah" contract (agent or representative). In the context of Sharia P2P Lending, the P2P Lending platform acts as an

agent or representative to connect Islamic borrowers and lenders. Borrowers seeking financing contact Sharia P2P Lending platforms. This platform acts as an agent or representative of borrowers and finds lenders who are willing to provide funds. Lenders provide loans to borrowers on agreed terms and this contract is regulated according to sharia principles. Islamic P2P lending platforms may charge fees or commissions for their services in facilitating transactions between borrowers and lenders. This fee must be in accordance with sharia principles and transparent (Samad & Bukido, 2022).

## 2. Fintech Sharia Financing

Sharia fintech companies offer various financing products such as sharia loans and working capital financing for small and medium enterprises (SMEs). They leverage technology to simplify the process of application, approval, and management of financing. Sharia Financing Fintech leverages technologies such as artificial intelligence (AI), data analytics, and other advanced software to evaluate applicants' eligibility and manage risk. This makes the process of applying for and approving financing faster and more efficient. Sharia Financing Fintech provides various types of financing products, including sharia personal loans, sharia business financing, sharia property financing, sharia vehicle financing, and more. This product suits the various needs of the applicant (Muryanto et al., 2021).

## 3. Shariah Crowdfunding Financing

Sharia crowdfunding platforms allow individuals or businesses to get funding from a small number of contributors. These funds can be used for various purposes, such as funding business or social projects in accordance with sharia principles. Projects or objectives that obtain financing through Islamic crowdfunding may vary. This could include business projects, property investment, social project funding, and more. It is important that such objectives should be in accordance with the principles of sharia and not violate Islamic rules. The process of sharia crowdfunding financing is often carried out through online platforms specifically designed for sharia financing. In Islamic crowdfunding, risks and benefits must be shared fairly among participants. If the project achieves success and makes a profit, then the profit will be divided according to the agreement, with the portion taken for charitable or social purposes. If the project fails, risks and losses must also be shared among participants. The platform facilitates meetings between entrepreneurs or projects with potential contributors. Islamic crowdfunding provides an opportunity for individuals and businesses to get funding from communities that share their Islamic values (Sudarwanto et al., 2023).

## 4. Sharia Property Financing

Various online platforms provide Islamic property financing, including residential and commercial properties. Sharia property financing can include various products, such as murabahah contracts, ijarah, and musharakah. This product allows individuals or businesses to purchase or obtain property financing in accordance with sharia principles. Islamic property financing provides solutions that comply with sharia principles for individuals and businesses who want to own or invest in property (Qorni & Juliana, 2020).

## 5. Sharia Digital Banking

Sharia banks that have adopted digital technology provide various Islamic financing services through digital banking applications. This includes business financing, consumer financing, and other financing in accordance with sharia principles. Islamic digital banking utilizes information technology, mobile devices, online platforms, and artificial intelligence to provide more efficient and accessible banking services. Customers can access their accounts, make transactions, and manage their funds through digital banking applications (Yusuf et al., 2022).

#### 6. Sharia Credit Card

Islamic credit cards are available digitally and comply with sharia principles, including interest prohibitions. They offer payment facilities that comply with sharia principles. Although Islamic credit cards do not charge interest, they may have administrative fees or other fees that must be paid by the cardholder. The benefits of banks or financial institutions that issue Islamic credit cards can be obtained from these fees (Husni, 2023).

#### The Role of Sharia Bank Financing with Community Productivity in the Digital Era

The development of financial technology is not only found in conventional fintech, but until now the development of sharia-based financial technology has also begun to develop in the community. Sharia Financial Technology is a form of technology-based financial service innovation and based on Islamic Sharia law that is useful for helping people to easily access financial products and services (Setiani et al., 2020).

The role of Islamic Financial Institutions in the digital era can be maximized by technological transformation that aims to support performance, increase efficiency and productivity, which in turn will support the profitability performance of Islamic financial institutions or Islamic banking (Sopiyanti et al., 2021). The challenges faced by Islamic financial institutions in the digital era are, first, the increasing consumption patterns of people who want something easily or instantly and indirectly demand Islamic financial institutions to improve services to customers. With satisfaction with service is the main factor that must be considered for Islamic financial institutions, service businesses.

Second, security, with increasingly sophisticated security technology along with the increasingly sophisticated theft technology in the digital realm. Systems developed by banking institutions, which are used to carry out transactions (transfers, account management, withdrawals, etc.) and at the same time, can be toyed with by irresponsible individuals (Sopiyanti et al., 2021). To anticipate this, Islamic banking can increase supervision of banking product facilities connected to the internet, especially in applications that provide convenience for customers.

Currently, Islamic bank financing can be one of the supports or sources of productive activities of the community so that it has an influence on the national economy. With the advancement of IT (information technology) and digitalization can serve customers without limited space and time so as to increase the market share of Islamic banking where the majority of Indonesian people are Muslims. Islamic banking financing has a positive and significant effect on public productivity and affects the economic development index. Financing channeled to

the public and Islamic banking is able to increase the production of goods, raw material processing, trade volume, and the implementation of other economic activities by partners who apply for financing. Increasing Islamic banking financing can also increase the exchange of goods and services in the community so as to improve public welfare.

## CONCLUSION

Based on the description above, we can conclude that technological developments in the current digital era have made the financial industry undergo a significant transformation. Sharia financing as an important part of the sharia-based economy faces challenges in maintaining compliance with sharia principles while adopting digital innovations.

Sharia financing follows Islamic principles that prohibit riba (interest) and transactions containing elements of ribawi. With the adoption of digital technology, Islamic financial services have become faster, more accessible and in accordance with customer needs. Some types of digital or fintech sharia financing products that are common today include sharia peer to peer lending, sharia crowdfunding financing, sharia property financing, sharia digital banking and sharia credit cards.

The role of Islamic Financial Institutions in the digital era can be maximized by technological transformation that aims to support performance, increase efficiency and productivity. With the right technological transformation, Islamic financial institutions can maximize their role in the digital era by increasing operational efficiency, providing innovative services, and remaining compliant with sharia law. This will benefit the financial institutions themselves, their customers, and contribute to the development of the Islamic finance sector as a whole.

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