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Indonesian Islamic Banking Transformation Strategy in the Digital Era: Analysis of Challenges, Opportunities, and Development Directions

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Abstract

Digital transformation has significantly changed the financial industry landscape and requires Islamic banking to adapt to remain competitive amidst developments in financial technology (fintech), neobanking, and changing customer behavior. This study aims to analyze the challenges, opportunities, and development direction of Indonesian Islamic banking in the digital era. This research is a normative legal study with a qualitative approach. The approaches used include a conceptual approach and a statutory approach. Data sources consist of primary data obtained from regulations, reports, and official publications of the Financial Services Authority (OJK), Bank Indonesia, and other relevant institutions. Secondary data are obtained from books, journal articles, previous research results, and various relevant literature. Data collection techniques were conducted through documentary studies, while data analysis was conducted qualitatively through the stages of data reduction, data presentation, and drawing conclusions. The results show that Islamic banking in Indonesia has significant potential for growth, supported by Muslim demographics, digital economic growth, and the development of the halal industry. However, this industry still faces challenges such as low Islamic financial literacy, limited capital, and lagging technological infrastructure. Therefore, the transformation strategy needs to focus on accelerating service digitalization, strengthening capital structures, developing human resources, and optimizing real-sector financing so that Islamic banking can become a leading financial institution that is competitive, inclusive, and sustainable.

Keywords: Islamic Banking, Digital Transformation, SWOT Analysis

Abstrak

Transformasi digital telah mengubah lanskap industri keuangan secara signifikan dan menuntut perbankan syariah untuk beradaptasi agar tetap kompetitif di tengah perkembangan financial technology (fintech), neobank, dan perubahan perilaku nasabah. Penelitian ini bertujuan menganalisis tantangan, peluang, dan arah pengembangan perbankan syariah Indonesia dalam menghadapi era digital. Penelitian ini merupakan penelitian hukum normatif dengan pendekatan kualitatif. Pendekatan yang digunakan meliputi pendekatan konseptual (conceptual approach) dan pendekatan peraturan perundang-undangan (statute approach). Sumber data terdiri atas data primer yang diperoleh dari peraturan, laporan, dan publikasi resmi Otoritas Jasa Keuangan (OJK), Bank Indonesia, serta lembaga terkait lainnya, sedangkan data sekunder diperoleh dari buku, artikel jurnal, hasil penelitian terdahulu, dan berbagai literatur yang relevan. Teknik pengumpulan data dilakukan melalui studi dokumetasi, sementara analisis data dilakukan secara kualitatif melalui tahapan reduksi data, penyajian data, dan penarikan kesimpulan. Hasil penelitian menunjukkan bahwa perbankan syariah di Indonesia memiliki peluang besar untuk berkembang melalui dukungan demografi muslim, pertumbuhan ekonomi digital, dan berkembangnya industri halal. Namun, industri ini masih menghadapi tantangan berupa rendahnya literasi keuangan syariah, keterbatasan permodalan, dan ketertinggalan infrastruktur teknologi. Oleh karena itu, strategi transformasi perlu difokuskan pada akselerasi digitalisasi layanan, penguatan struktur permodalan, pengembangan sumber daya manusia, serta optimalisasi pembiayaan sektor riil agar perbankan syariah mampu menjadi lembaga keuangan utama yang kompetitif, inklusif, dan berkelanjutan.

Kata Kunci: Perbankan Syariah, Transformasi Digital, Analisis SWOT

A. Introduction

Digital transformation has changed how the financial industry, including Islamic banking in Indonesia, operates. Developments in information technology and digital financial services are driving changes in customer behavior, leading to a demand for fast, easy, secure, and accessible services. This situation requires Islamic banks to adapt to technological developments to maintain competitiveness. Therefore, digital transformation is a strategic necessity for Islamic banks to not only uphold Islamic principles but also deliver innovative services that meet the demands of the digital era.[1]

This change is increasingly important given the significant potential of Islamic banking in Indonesia, the country with the largest Muslim population in the world. Although its market share remains relatively small compared to conventional banking, this situation presents opportunities to expand inclusion and market penetration through digital technology. The presence of services such as mobile banking, internet banking, digital onboarding, and integration with the fintech ecosystem is a crucial strategy for expanding

[1] Mufti Afif dan Andriani Samsuri, "Integration of Fintech and Islamic Banking in Indonesia: Opportunities and Challenges," *Cakrawala: Jurnal Studi Islam* 17, no. 1 (2022): hlm. 31., https://doi.org/10.31603/cakrawala.7051.

service reach and accelerating the growth of the national Islamic banking industry.[2]

However, the digital transformation of Islamic banking faces various challenges, such as the significant need for technology investment, increasing cybersecurity risks, and the readiness of human resources, who must possess adequate digital competencies. Furthermore, all digital innovations developed must remain aligned with Sharia principles. Therefore, digital transformation requires a comprehensive and integrated approach to be effective and sustainable.[3]

On the other hand, the development of digital technology opens up significant opportunities for Islamic banking to improve efficiency and service quality. Utilizing technology can reduce operational costs, accelerate transactions, and enhance the customer experience through more responsive services. Innovations such as artificial intelligence, big data analytics, and blockchain also have the potential to create more adaptive business models, while expanding service reach to hard-to-reach areas. Thus, digital transformation can be a catalyst for increasing Islamic financial inclusion and driving sustainable industry growth.[4]

Furthermore, digital transformation is driving collaboration between Islamic banking and fintech to create a more innovative and efficient financial ecosystem. This collaboration enables the development of digital payment services, technology-based financing, and more accessible Islamic investment products, while simultaneously expanding the market, especially among the younger generation. However, this synergy needs to be supported by clear regulations to maintain a balance between innovation and consumer protection. Therefore, strategic partnerships are crucial for the success of Islamic banking's digital transformation.[5]

As the digitalization of financial services accelerates, regulation and governance have become pivotal elements in the evolution of Islamic banking. Responsive regulations are essential to accommodate technological advances while preserving financial system stability. In this context, the Financial

[2] Erna May Wulandari dan Maya Indriastuti, "Digital Transformation in the Economic Growth of Indonesian Sharia Bank Services," *Islamic Economics Journal* 9, no. 2 (2023): hlm. 217., https://doi.org/10.21111/iej.v9i02.40.

[3] Rifazul Adzmi dkk., "Electronic Security and Sharia Compliance: Addressing Legal Challenges In Digital Banking In Indonesia," *JEKSYAH: Islamic Economics Journal* 5, no. 02 (2025): hlm. 78., https://doi.org/10.54045/jeksyah.v5i02.2836.

[4] Luqman Syakirunni'am dkk., "Artificial Intelligence and the Transformation of Digital Services in Islamic Banking: A Case Study of Bank Syariah Indonesia," *LogicLink* 2, no. 1 (2025): hlm. 80., https://doi.org/10.28918/logiclink.v2i1.10707.

[5] Afif dan Samsuri, "Integration of Fintech and Islamic Banking in Indonesia," hlm. 33.

Services Authority (OJK), Bank Indonesia, and the National Sharia Council (DPR) are instrumental in ensuring digital innovations comply with legal mandates and Sharia principles. Additionally, robust governance is required to uphold transparency, accountability, and public trust. Hence, collaboration between regulators and the industry is critical to the effective digital transformation of Islamic banking.[6]

The direction of Islamic banking development in the digital era should prioritize the simultaneous creation of economic and social value, ensuring technology serves the primary goal of Islamic economics: justice, welfare, and sustainable prosperity. Digitalization must address diverse societal needs, strengthen digital financial literacy, and foster innovation grounded in Islamic principles to differentiate Islamic banking from conventional institutions.[7]

Based on the above description, digital transformation is a strategic factor determining the future of Indonesian Islamic banking amidst a dynamic business environment. Various challenges, such as strengthening technological infrastructure, improving human resource quality, cybersecurity, and adaptive regulatory support, require optimal prevention. On the other hand, the development of digital technology also opens up opportunities to expand markets, increase efficiency, and strengthen industrial competitiveness. Therefore, a transformation strategy is needed that integrates technological aspects, Sharia compliance, and community needs to support the sustainable development of Islamic banking in Indonesia.

B. Research Methods

This study uses a normative legal research method with a qualitative approach. The aim is to analyze the various challenges, opportunities, and transformation strategies of Indonesian Islamic banking in facing the digital era. The approach includes a conceptual approach to examine theories related to digital transformation, Islamic banking, and financial industry competitiveness. It also uses a statutory approach to examine regulations governing Islamic banking and financial technology innovation in Indonesia. The research data sources consist of primary data from official regulatory documents. These include regulations, reports, and publications issued by the Financial Services Authority (OJK), Bank Indonesia, and other related institutions. Secondary data comes from scientific books, journal articles,

[6] Choirunnisak Choirunnisak dkk., “Opportunities And Challenges Of Islamic Banking In Indonesia In The Digital Era,” *IQTISHADUNA: Jurnal Ekonomi Dan Keuangan Islam* 16, no. 2 (2025): hlm. 107.

[7] Nanda Ega Rupita dan Rozi Andrini, “Digital Transformation Of Islamic Banking In Indonesia: Opportunities And Challenges In The Modern Islamic Economy,” *Josh-E: Journal of Sharia Economics* 1, no. 2 (2025): hlm. 114.

previous research, proceedings, and relevant literature. Data collection techniques are carried out through documentation studies. These involve reviewing, inventorying, and examining literature sources related to the research object. The collected data is analyzed using qualitative descriptive analysis. This involves data reduction, data presentation, and systematic conclusion drawing. As a result, the study obtains a comprehensive picture of the actual condition of Islamic banking, factors influencing its digital transformation, and development directions to increase the competitiveness of the Islamic banking industry in the future.

C. Discussion and Research Results

Islamic Banking from an Islamic Perspective

Islam is a perfect teaching and a guide for human life, leading to happiness in this world and the hereafter. Islamic teachings govern not only the relationship between humans and God but also relationships among humans and other creatures. Therefore, Islam is seen as a way of life that governs all aspects of human life, so that no area of life is exempt from Islamic teachings, including economics.[8]

In Islamic jurisprudence, there is a principle that states "maa laa muridm al-wajib illa bihi fa huwa wajib," meaning that if something must exist to fulfill an obligation, it must be provided. Earning a living (i.e., engaging in economic activity) is obligatory. And because in this modern era, economic activity would not be complete without banking institutions, these institutions are also obligatory. Thus, the connection between Islam and banking becomes clear.[9]

In the business world, banking is inextricably linked, including for Muslim entrepreneurs, who cannot escape the existence of interest-based banks. Although there are currently alternative banking options available that attempt to align their business activities with Islamic teachings, many Muslim entrepreneurs and communities still lack the confidence to utilize them. In fact, interest, or anything in excess of the original capital loaned or deposited, constitutes usury. The law of usury, according to Islam, is clearly forbidden without any conditions. As stated by Allah SWT in the Qur'an, Surah Al-Baqarah, verse 275, which translates as: "Allah has permitted trading and forbidden usury."

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[8] Dani Rohmati dkk., "Maqāṣid al-Sharīʿah sebagai Landasan Dasar Ekonomi Islam," *Economica: Jurnal Ekonomi Islam* 9, no. 2 (2018): hlm. 300., https://doi.org/10.21580/economica.2018.9.2.2051.

[9] Karim Adiwarman A., *Bank Islam : Analisis Fiqih dan Keuangan* (Jakarta: PT Raja Grafindo Persada, 2009), hlm. 14

Buying and selling is a transaction involving mutual agreement between the seller and buyer regarding the exchange of goods at an agreed price. In this case, the term "exchange goods" distinguishes the meaning of buying and selling from that of usury. Meanwhile, usury is an agreement between two partners regarding an excess of the original goods without any compensation. Some say, "I paid so much extra, and it was replaced within a specified time period. So, the time period includes the compensation for the excess I took".[10]

Interest is categorized as usury (riba) in Islamic jurisprudence. Because of this, efforts have emerged in many Islamic countries with Muslim majorities to establish alternative, non-usury banking institutions. This was especially true after many Muslim-majority countries gained independence from European colonial powers. The first modern attempt to establish an interest-free bank was made in Malaysia in the mid-1940s, but it was unsuccessful. Similar attempts followed in Pakistan, Egypt, and other Arab countries.[11]

Meanwhile, in Indonesia, the first Islamic bank to be established was Bank Muamalat Indonesia (BMI). Although its development was somewhat delayed compared to other Muslim-majority countries, Islamic banking in Indonesia is expected to continue to grow. While there was only one Islamic bank between 1992 and 1998, by 2011, there were many options for banks that implemented Islamic principles, including Bank Muamalat Indonesia (BMI), Bank Syariah Mandiri (BSM), BRI Syariah, BNI Syariah, BTN Syariah, Bukopin Syariah, Bank Mega Syariah, and others.[12]

Several factors influence the bright prospects for the development of Islamic banking in Indonesia, as follows: First, increasing awareness among Muslims to conduct business according to Islamic law. Second: Increasing availability of reliable human resources in the field of Islamic banking with the opening of several colleges or faculties that concentrate on the development of Islamic economics. Third: Increasing interest among conventional bank owners in opening Islamic divisions or business units. Fourth: The existence of a clear legal umbrella that regulates Islamic banking with the issuance of Law

[10] Yasin Fatihudhin Abul., *Umat Bertanya Islam Menjawab* (Surabaya: Terbit Terang, 1997), hlm. 62

[11] Bunga Metrizal, "Sejarah Dan Keberadaan Perbankan Syariah Di Indonesia dan Malaysia (Studi : Regulasi, Sistem dan Dinamika Perkembangan)," *Indonesian Journal of Economics, Management, and Accounting* 2, no. 6 (2025): hlm. 1715.

[12] Yudi Y dkk., "Perkembangan Perbankan Syariah di Indonesia," *Socius: Jurnal Penelitian Ilmu-Ilmu Sosial* 2, no. 4 (2024): hlm. 82., https://doi.org/10.5281/ZENODO.14143783.

No. 10 of 1998 concerning Banking. Fifth: The beginning of an improving economic climate in Indonesia.[13]

The concept of developing Islamic banking in the future is formulated with the vision of making Islamic banking the lifeblood of a blessed national economy, capable of optimally performing its functions and providing benefits to all parties. To achieve this vision, the mission of Islamic banking includes: first, becoming a professional and trusted financial institution as a place for the accumulation of community capital; second, facilitating the economic development of the people and society by providing easy and affordable capital sources and becoming a partner for economic actors; third, becoming a locomotive of the Islamic-based economy by encouraging the growth of other Islamic economic sectors, such as mutual funds, insurance, and Islamic financing companies; and fourth, building an extensive network, both at the national and global levels.[14]

Indonesian Islamic Banking Transformation Strategy

No business organization operates in a vacuum. It constantly interacts with a specific environment, often shrouded in uncertainty and rapid change. The logical consequence of this rapid change is an impact on the business environment, which has also undergone extraordinary changes.[15]

Internally, management is faced with the demands and interests of various parties, such as employees and shareholders. Furthermore, even outside the organization, various stakeholders, such as suppliers, distributors, agents, the government, and customers or users of the organization's products/services, have a stake in its success. Furthermore, there is another important consideration: the current globalization and information revolution.[16]

The primary strategy for developing Islamic banking in the future is "transformation." This transformation must primarily be carried out within Islamic banking institutions. The necessary transformation process is as

[13] Iman Hilman., *Perbankan Syariah Masa Depan* (Jakarta: Senayan Abadi Publishing, 2003), hlm. 6

[14] Haqiqi Rafsanjani, "Confirmatory Factor Analysis (Cfa) Untuk Mengukur Unidimensional Indikator Pilar Pengembangan Perbankan Syariah Di Indonesia," *Jurnal Masharif al-Syariah: Jurnal Ekonomi dan Perbankan Syariah* 7, no. 2 (2022): hlm. 625., https://doi.org/10.30651/jms.v7i2.14394.

[15] Muhammad Wadud Rahmat, "Revealing the power play: Unraveling the dynamic environment's influence on intangible resources and sustainable competitive advantage," *Jurnal Siasat Bisnis* 28, no. 1 (2024): hlm. 11., https://doi.org/10.20885/jsb.vol28.iss1.art1.

[16] Mercy Ejovwokeoghene Ogbari dkk., "Exploring The Influence of Environmental Complexity on Entrepreneurial Decision Making: A Conceptual Review," *JURNAL AKUNTANSI DAN BISNIS : Jurnal Program Studi Akuntansi* 8, no. 2 (2022): hlm. 80., https://doi.org/10.31289/jab.v8i2.7519.

follows: First, from Islamic Products to Islamic Corporations. The inclusion of the Islamic label on an institution carries serious consequences. Public expectations of institutions with the Islamic label are very high, even expecting them to perform perfectly in accordance with Islamic law. Therefore, in the future, Islamic banking will not be sufficient based solely on its Islamic products. The public will evaluate not only its products but also its management system, personnel profile, and service delivery. In other words, Islamic banking must also ensure that all operational aspects are truly based on Islamic law.

Second: From Emotional Sentiment to Professional Rationality. One weakness of Islamic banking is that many Islamic banks still target Sharia loyalists or Sharia fanatics. This means that banks seek customers who prioritize emotional sentiment over rational-professional considerations. Their communication content still emphasizes issues of halal (permissible) and haram (forbidden) or usury (riba), and underemphasizes the value achieved by customers.

This approach is unreliable in the long term. There are two underlying reasons. First, the number of fanatics is far smaller than the floating market segment. This floating market will generally seek out banks that can provide higher value. Second, when the number of Islamic banks increases and competition increases, the issue of usury will no longer be relevant. Competition will shift to which bank can provide better value and service.

Therefore, banking in the future must package communications that place greater emphasis on the rational aspects of the customer decision-making process. Issues of halal and haram (permissible and haram) or usury (riba) should be secondary, while the primary issue is the professionalism of the bank and the service customers receive.

Third: From Muslim Customers to General Customers. Islamic banking must also be open and proactive in reaching out to both general and non-Muslim customers. The image that Islamic banking is only for Muslims must be changed immediately. Therefore, communication should no longer address the issue of usury, but rather the issue of professionalism.

In relation to transformation 2, there must be a serious effort to change the image of Islamic banking. While the slogans used so far have been more "Islamic," such as "blessing," "halal," "sharia," and so on, going forward, these terms will be supplemented and enriched (not replaced) with more general and popular terms, such as "serving," "trustworthy," "safe," "profitable," "beneficial," "professional," and so on.

Fourth: From Large Entrepreneurs to a More Equitable Orientation. Currently, banks prefer to provide credit to large businesses rather than to small businesses spread across the regions. Furthermore, bank branches function more like an octopus, absorbing funding sources in the regions and then channeling them to large businesses in Jakarta. Meanwhile, small businesses located close to branch offices receive only a small portion of the credit disbursement.

Islamic banking must be able to correct this error. Therefore, the future concept of Islamic banking must create a fair distribution between large and small businesses, as well as between the central and regional levels. To support this concept, Islamic banks must limit their branch office bookkeeping to the city/district level. The sub-district level is allocated to BPRS (Small-Scale Social Reform Institutions). Even at the branch office level, there must be a policy for allocating funds to the regions. This is to prevent excessive absorption of public funds by the central government and to encourage fund circulation and investment in the regions.

Fifth: From Investment Motives to Capital Accumulation. One of the reasons for Indonesia's slow economic recovery from the crisis is the sluggish real sector. This sector will only grow if it receives affordable credit from banks. With current interest rates, this will be difficult for the real sector to grow. Therefore, it is time for Islamic banking to pioneer "affordable funds" for the public.

If interest rates in conventional banks or profit-sharing ratios in Islamic banking are too high, the cost of funds will become expensive and encourage people to save their funds solely for investment purposes. However, the primary function of banks is to collect and distribute funds to stimulate the economy. From an Islamic legal perspective, more valuable investments are those in the real sector, as they can create jobs, optimize resources, and increase community income. Therefore, Islamic banking in the future needs to pioneer more affordable financing to encourage investment in various productive business sectors.[17]

SWOT Analysis and Future Direction of Islamic Banking Development

Anyone who is familiar with corporate strategy formulation and plays a role in the decision-making process within an organization, including Islamic banking, knows that SWOT analysis is a powerful analytical tool when used appropriately. It is also widely known that SWOT is an acronym for "Strengths," "Weaknesses," "Opportunities," and "Threats." Strengths and weaknesses exist within an organization, including a specific business unit, while opportunities

[17] Iman Hilman dkk., *Perbankan Syariah Masa Depan*(Jakarta: Senayan Abadi Publishing, 2003), hlm. 12

and threats represent environmental factors facing the organization, company, or business unit in question. While SWOT analysis can be a powerful tool for strategic analysis, its effectiveness lies in the ability of corporate strategists to maximize the role of strengths and capitalize on opportunities, thus simultaneously serving as a tool to minimize weaknesses within the organization and mitigate the impact of emerging threats. If corporate strategists are able to do both of these things correctly, the efforts to select and implement effective strategies will usually yield the desired results.

Strength Factors. The strength factors of a company, including its business units, include specific competencies within the organization that result in a business unit having a comparative advantage in the market. This is because the business unit possesses resources, skills, flagship products, and so on, which make it stronger than its competitors in satisfying the market needs that the business unit already serves and plans to serve. Examples of these areas of strength include financial resources, a positive image, a superior market position, relationships with suppliers, loyalty among product users, and the trust of various stakeholders.

Weakness Factors. When people talk about weaknesses within a business unit, they mean limitations or deficiencies in resources, skills, and capabilities that seriously hinder the organization's satisfactory performance. In practice, these limitations and deficiencies can be seen in the facilities and infrastructure it possesses or lacks, poor managerial skills, marketing skills that do not meet market demands, products that are not or are less in demand by users or potential users, and inadequate profit margins.

Opportunity Factors. A simple definition of opportunity is a variety of environmental situations that are favorable for a business unit. These situations include: Important trends occurring among product users, Identification of an underserved market segment, Changes in competitive conditions, Changes in laws and regulations that open up new opportunities in business activities, Relationships with "familiar" buyers, and "harmonious" relationships with suppliers.[18]

Threat Factors. The definition of threat is the opposite of the definition of opportunity. Thus, it can be said that threats are environmental factors that are unfavorable to a business unit. If not addressed, threats will become obstacles for the business unit concerned both now and in the future. Various examples include: The entry of new competitors in markets already served by the business unit, Slow market growth, Increased bargaining power of buyers

[18] Siagian Sondang P.,*Manajemen Stratejik* (Jakarta:Bumi Aksara, 1998), hlm. 173

of the products produced, strengthened bargaining power of suppliers of raw materials or ingredients needed for further processing into certain products, Developments and changes in technology that have not been mastered, and Changes in laws and regulations that are not supportive.

SWOT Analysis of Islamic Banking in Indonesia

To understand the prospects for Sharia banking or Islamic banking in Indonesia, it is first necessary to inventory, study, and analyze its strengths, weaknesses, opportunities, and threats. This process is commonly known as a SWOT analysis. By understanding the results of a SWOT analysis of the presence of Sharia banking in Indonesia, one can estimate its prospects and strategies for addressing them.

Islamic banking in Indonesia has several strengths, namely: first, the support of the majority of the Muslim population who have long hoped for the presence of Islamic-based banks; second, the existence of regulatory support and recognition from banking authorities through Law Number 10 of 1998; third, the principle of transparency through a profit-sharing system that reflects real business conditions; fourth, stronger resilience to monetary fluctuations because it does not use an interest system; fifth, customer investments are not affected by interest rate fluctuations; and sixth, the existence of a partnership principle that encourages fair sharing of risks and profits between banks and customers.

In addition to its strengths, Islamic banking also has the following weaknesses: First, there are still various controversies regarding the existence and operational systems of Islamic banks among community groups and Islamic bankers, such as controversies about bank interest and usury, controversies about cash-based and accrual-based accounting systems, and so on. Second: The service network of Islamic banks is still limited and inferior to that of conventional banks. Third: The success of Islamic banks' profit-sharing systems for mudharabah and musyarakah financing depends heavily on the honesty of their customers (moral hazard). Thus, Islamic banks are highly vulnerable to those with bad intentions. Fourth: The profit-sharing system requires precise calculations, especially in calculating the share of small profits for customers whose deposits in the bank are never fixed. Therefore, the possibility of miscalculations can occur at any time, requiring greater precision than conventional banks. Fifth: Because Islamic banks are still relatively new to Indonesia, it is likely that implementing regulations for their guidance and supervision are still needed.

Despite its advantages and disadvantages, Islamic banking in Indonesia offers significant opportunities, including the following: First, the rise in religious awareness, a result of developments in the religious sector, is encouraging Muslims to conduct business in accordance with Islamic teachings. Second: Indonesia's current economic climate is improving compared to the economic crisis of 1998. Third: The monetary crisis that hit Asian countries, which later developed into an economic crisis, has demonstrated the fragility of the interest-based banking system. At the same time, banks adhering to Islamic principles are more likely to survive, raising public awareness of the advantages of Islamic banking. Fourth: The increasing availability of skilled workers in Islamic banking, along with the rise of educational institutions specializing in Islamic economics. Fifth: The concept of Islamic banking, which prioritizes production and trade activities, as well as collaboration in investment, facing business risks, and sharing profits, will make a significant contribution to the Indonesian economy, particularly in stimulating investment, providing employment opportunities, and equitable distribution of income.

Islamic banking in Indonesia faces several threats, including: First, the stigma that Islamic economics is exclusive and only for Muslims. Second, the assumption that Islamic banking is no different from conventional banking. Third, increasing competition between Islamic banks and with the Islamic business units of conventional banks. Fourth, the perception that Islamic banking is only open to Muslim customers. Fifth, the rapid development of fintech and digital financial services, which demands continuous innovation from Islamic banks.[19]

D. Conclusion

Indonesian Islamic banking has significant prospects in the digital era, supported by a majority Muslim population, growing awareness of Islamic finance, regulatory support, and the development of the digital economy and halal industry. However, the industry still faces various challenges, such as low Islamic financial literacy, limited capital, suboptimal technological infrastructure, and competition from fintech companies, neobanks, and conventional financial institutions. Therefore, transformation is needed through accelerated service digitalization, strengthened capitalization, optimization of real sector financing, particularly for the halal industry and MSMEs, and a paradigm shift toward professional, inclusive, and performance-oriented Islamic corporations. With this strategy, Islamic banking can become the public's primary choice through excellence in innovation, transparency,

[19] Tarigan Azhari Akmal, *Prospek Bank Syariah Pada Millenium Ketiga (Peluang dan Tantangan)*(Medan: IAIN PRESS,2002) hlm. 10

efficiency, security, and its contribution to sustainable national economic development.

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