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DIGITAL TRANSFORMATION IN ENHANCING THE PERFORMANCE AND SERVICES OF ISLAMIC BANKS IN INDONESIA

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Abstract

The development of digital technology is driving significant transformation in the banking industry, including Islamic banking. This transformation not only improves operational efficiency but also the quality of customer service, while adhering to Sharia principles. This study aims to analyze the role of digital transformation in improving the performance and service quality of Islamic banks in Indonesia. The method used is a qualitative approach through a literature review using secondary data from journals, books, and official reports. The results show that digital transformation can increase efficiency, accelerate transactions, and expand service access. Furthermore, service quality is improved through convenience, speed, and transparency. However, its implementation still faces challenges such as cybersecurity risks, limited infrastructure, and low digital literacy. Therefore, digital transformation plays a strategic role in the development of Islamic banking, while still adhering to Sharia principles and the readiness of technology and human resources.

Keywords: Digital transformation, Islamic banking, Performance, Service quality

1. Introduction

The development of digital technology has brought fundamental changes to the banking industry, including Islamic banking in Indonesia. Digital transformation is no longer an option but a strategic necessity for banks to survive and thrive amidst increasingly fierce competition and changing consumer behavior, which increasingly relies on technology-based services (Wahab & Moh. Ihsan, 2025) . Today's customers

tend to want services that are fast, accessible, efficient, and accessible anytime, without being limited by space and time. This situation encourages banks, including Islamic banks, to continue innovating in providing digital services such as mobile banking, internet banking, and various other digital financial platforms (Anggrainie, 2024).

In the context of Islamic banking, digital transformation is not only oriented towards improving efficiency and service quality, but must also remain grounded in Sharia principles such as fairness, transparency, and trustworthiness. This presents a challenge because every digital innovation implemented must remain compliant with Sharia provisions, both in terms of products, contracts, and operational mechanisms (Rika, 2026) . Therefore, managing digital transformation in Islamic banks requires a managerial approach that emphasizes not only technological aspects but also the integration of Sharia values into every business process (Ulum et al., 2025).

On the other hand, the implementation of digital transformation offers significant opportunities for Islamic banks, including increased operational efficiency through service automation, reduced operational costs, and expanded service reach to previously underserved communities (Irham & Santoso, 2025) . Furthermore, digitalization plays a role in improving service quality and customer satisfaction through ease of access, transaction speed, and information transparency. However, digital transformation also presents several challenges, such as data and cybersecurity risks, technological infrastructure readiness, and the community's varying levels of digital literacy. Therefore, an appropriate management strategy is needed to ensure optimal impact on the performance of Islamic banks (Maharani & Sari, 2025).

Based on this background, the objective of this study is to analyze the role of digital transformation in improving the performance and service quality of Islamic banks in Indonesia and to identify the challenges faced in its implementation. This study also aims to provide a more comprehensive understanding of how digital transformation can be integrated with Islamic principles in modern banking practices.

The contribution and benefits of this research are expected to provide added value both theoretically and practically. Theoretically, this research is expected to enrich studies in the field of Islamic banking management, particularly those related to digital transformation. Meanwhile, practically, the results of this study are expected to serve as a reference for Islamic banks in formulating effective, efficient, and Sharia-

compliant digitalization strategies, as well as serve as a reference for future researchers who wish to explore similar topics in greater depth.

2. Literature review

2.1. Digital Transformation in Banking

Digital transformation is a strategic change process that involves the comprehensive use of digital technology in organizational activities to improve performance, efficiency, and quality of service to customers. (Izza, 2024) . In the banking sector, digital transformation is not only limited to the use of technology, but also encompasses changes in business models, customer interaction patterns, and data-driven decision-making. Technologies such as mobile banking, internet banking, big data analytics, artificial intelligence, and cloud computing are key pillars in driving this transformation. (Muthohhar, 2026)

transformation reflects the integration between technology, strategy, and organizational culture that aims to create added value for customers. (Nefianto, nd) . In the context of modern banking, changes in consumer behavior, which increasingly relies on digital technology, are a major driving factor in this transformation. Today's customers demand services that are fast, practical, secure, and accessible at any time without having to visit a bank branch. Therefore, banks that are unable to adapt to digital developments are at risk of losing their competitive edge in the increasingly competitive financial industry. (Apriani, 2025)

Furthermore, digital transformation also enables banks to improve operational efficiency through process automation, paperless operations, and data management system optimization. This has a direct impact on lowering operational costs and increasing organizational productivity. Therefore, digital transformation has become an unavoidable strategic necessity in the banking industry, including Islamic banking. (Yanti & Fasa, 2025)

2.2. Islamic Banking and Its Basic Principles

Islamic banking is a financial institution that operates based on Islamic sharia principles derived from the Quran and Hadith. The main principles underlying Islamic banking operations include the prohibition of riba (interest), gharar (uncertainty), and maysir (speculation), as well as the application of the values of justice, transparency, and the welfare of all in every transaction. Islamic banking

is not solely focused on financial profit, but also considers ethical and social aspects in its economic activities. This is reflected in the concept of profit and loss sharing, which emphasizes fairness between the bank and its customers. Furthermore, Islamic banks also play a role in promoting inclusive and equitable economic development through financing the real sector. (Ilham & Prof. Dr. H. Muslimin, nd)

In facing the digital era, Islamic banking is required to maintain consistency with Sharia principles despite changes in the systems and technology used. Every implemented digital innovation must undergo a Sharia review and oversight process to ensure its compliance with the provisions of Islamic jurisprudence (fiqh muamalah). Therefore, digital transformation in Islamic banking is not only related to technological aspects, but also the integration of Sharia values into every business process. (Gisatriadi, 2024)

2.3. Digitalization of Islamic Banking Services

Service digitalization is an important part of digital transformation that focuses on developing technology-based services to improve the quality of interactions between banks and customers. (Hasyim et al., 2025) . In Islamic banking, digitalization of services includes various innovations such as Islamic mobile banking, internet banking, digital account opening (opening an account online), and the use of digital-based financial applications that facilitate daily transactions. (Bagas & Fasa, 2024)

Service digitization can also improve bank operational efficiency by automating transaction processes and reducing reliance on manual services. Furthermore, digitalization allows banks to reach a wider segment of society, including those previously underserved by the banking system (the unbanked). This aligns with the goal of financial inclusion, which is also part of the vision for developing Islamic banking in Indonesia. (Khoir, 2025) .

On the other hand, service digitization also has a positive impact on the customer experience. Ease of access, speed of transactions, and transparency of information are important factors in increasing customer satisfaction. However, the implementation of digitalization in Islamic banks must still consider Sharia compliance. Every feature and service developed must comply with the

applicable contract and not contain elements prohibited by Islam. (Farhah Lailatul Mustaghfiroh1 et al., 2025) .

Furthermore, challenges in digitalizing services cannot be ignored, such as cybersecurity risks, customer data protection, and technological infrastructure readiness. Therefore, Islamic banks need to develop robust security systems and improve the public's digital literacy to ensure optimal use of digital services. (Fakhrezy, 2024) .

2.4. Islamic Bank Performance

Islamic bank performance is an indicator used to assess the success of a bank in carrying out its operational activities. This performance can be measured through various aspects, such as profitability, operational efficiency, asset growth, financing quality, and customer satisfaction levels. In the digital era, technological transformation is a factor significantly influencing bank performance improvements. (Suzana et al., 2025)

The application of digital technology in the banking sector can improve operational efficiency and effectiveness by accelerating transaction processes and managing data more accurately. In the context of Islamic banks, performance improvements are not only measured financially, but also in terms of compliance with Islamic principles and their contribution to public welfare. (Farah salsabila, 2025) .

Digital transformation enables Islamic banks to optimize resource utilization, reduce operational costs, and improve the quality of customer service. Digital systems accelerate and streamline transaction processes, increasing bank productivity and competitiveness in the financial industry. However, the success of digital transformation in improving bank performance depends heavily on organizational readiness, the quality of human resources, and adequate technological infrastructure support. (Ulum et al., 2025) .

2.5. Quality of Islamic Banking Services

Service quality is a key factor in determining customer satisfaction and loyalty when using banking services. In Islamic banking, service quality is measured not only by technical aspects but also by adherence to the Sharia values that underpin its operations. Therefore, the services provided must reflect the principles of honesty, fairness, and trustworthiness. Service quality can be

measured through five main dimensions: tangibles, reliability, responsiveness, assurance, and empathy. In the digital era, service quality dimensions have evolved with the addition of factors such as ease of use, access speed, data security, and real-time service availability. (Meilani & Sugiarti, 2022) .

Digitalization presents a significant opportunity for Islamic banks to improve service quality through technology-based innovation. Digital services enable customers to conduct transactions more easily and efficiently without having to visit a bank branch. Furthermore, the transparency of information provided through digital systems can also increase customer trust in the bank. (Laelasari et al., 2024) . However, improving service quality through digitalization must also be balanced with sound risk management, particularly regarding data and system security. Islamic banks need to ensure that the systems they use have a high level of security and are capable of protecting customer data from cyber threats. (Amhar Maulana Harahap, 2025) .

2.6. Research Gap

transformation plays a significant role in improving the performance and quality of banking services, including Islamic banking. Previous studies have generally focused on the impact of digitalization on operational efficiency, increased customer satisfaction, and strengthened bank competitiveness in the digital era. However, several research gaps remain that offer opportunities for further study. First, most previous research has focused on technology and financial performance, while studies that comprehensively integrate digital transformation with Sharia principles are relatively limited. In Sharia banking, the success of digital transformation is measured not only by efficiency and profitability, but also by its adherence to Sharia values such as fairness, transparency, and trustworthiness. (Shabri et al., 2020) .

Second, previous research tends to discuss service digitalization in general without examining in-depth how the implementation of digital technology affects the quality of Sharia-based services, particularly in the context of customer experience. However, in practice, service quality in Sharia banks has its own characteristics that are oriented not only towards technical aspects but also towards ethical and religious values. (Fadhilah & Darmawati, 2023) .

Third, there is still limited research that simultaneously analyzes the relationship between digital transformation, bank performance, and service quality within a single, integrated research framework. Some studies only examine partial relationships between variables, thus failing to provide a complete picture of the role of digital transformation in improving the performance and service quality of Islamic banks. (Oscar Christian Noventa, 2024)

Fourth, research on digital transformation in Islamic banking in Indonesia still faces limitations in examining specific implementation challenges, such as technological infrastructure readiness, the public's digital literacy level, and increasingly complex cybersecurity risks. These factors significantly influence the success of digital banking services. (Amhar Maulana Harahap, 2025) .

Considering these gaps, this study was conducted to more comprehensively examine the role of digital transformation in improving the performance and quality of Islamic banking services in Indonesia, while still integrating Sharia principles into its implementation. Therefore, this research is expected to provide a more comprehensive contribution, both theoretically and practically .

3. Research methods

This study uses a qualitative approach with descriptive methods to analyze the role of digital transformation in improving the performance and service quality of Islamic banks in Indonesia. The data used is secondary data obtained from scientific journals, books, and official reports from institutions such as the Financial Services Authority and Bank Indonesia that are relevant to the research topic.

Data collection was conducted through a literature review, reviewing and analyzing relevant literature. The research model is conceptual, describing the relationship between digital transformation as the primary variable and the performance and quality of Islamic banking services, with Sharia principles as the foundation for its implementation.

The operational definitions of the variables in this study include digital transformation as the use of technology in bank operations, bank performance as the level of operational success, service quality as the level of customer satisfaction, and Sharia principles as the core values in banking activities. The data analysis technique used was qualitative descriptive analysis through the stages of data reduction, data presentation, and conclusion drawing.

4. Results and Discussion

4.1. Research Results

Based on the results of a literature review, digital transformation in Islamic banking in Indonesia has shown significant progress. Data from the Financial Services Authority (OJK) shows that the market share of Islamic banking has reached approximately 7%–8% of the total national banking industry , indicating an increasing contribution of this sector to the national financial system (Finance, 2025) . Furthermore, Bank Indonesia noted that the value of digital banking transactions in 2023 had exceeded IDR 50,000 trillion , indicating a high level of adoption of digital services by the public (Indonesia, 2022).

These findings demonstrate that digital transformation is a crucial factor in driving the growth and competitiveness of Islamic banks. The implementation of technologies such as mobile banking and internet banking not only improves operational efficiency but also expands the reach of services to previously unbanked communities. Therefore, digitalization plays a strategic role in supporting increased Islamic financial inclusion in Indonesia.

However, the study also indicates that digital transformation is not yet fully optimal. This is due to obstacles such as limited technological infrastructure, cybersecurity risks, and the varying levels of digital literacy in the community. This situation demonstrates that the success of digital transformation is determined not only by technology but also by the readiness of its supporting ecosystem.

4.2. Discussion

The results of this study reinforce previous research findings that digital transformation has a significant impact on improving banking performance, particularly in terms of efficiency and productivity. Digitalization enables Islamic banks to automate operational processes, thereby reducing costs and increasing service speed. This aligns with the Financial Services Authority's policy of promoting digitalization as a primary strategy for strengthening the financial services industry.

Furthermore, digital transformation has been proven to improve service quality, particularly in terms of ease of access, transaction speed, and information transparency. Bank Indonesia's support through the development of digital payment systems has further accelerated the adoption of technology-based

services in the Islamic banking sector. This indicates that digitalization not only increases internal efficiency but also improves the overall customer experience.

However, this research also shows that digital transformation in Islamic banking has distinct characteristics compared to conventional banking. In Islamic banking, every digital innovation must remain grounded in Sharia principles such as fairness, transparency, and trustworthiness. Therefore, the integration of digital technology and Sharia values is a key factor in maintaining customer trust and the sustainability of the industry.

On the other hand, challenges in implementing digital transformation remain an issue that requires serious attention. Data security risks and cyberattacks highlight the need for stronger protection systems. Furthermore, the digital literacy gap in society indicates that not all customers are able to optimally utilize digital services. This demonstrates that digital transformation must be accompanied by an adequate education strategy and infrastructure strengthening.

Thus, this study confirms that digital transformation plays a strategic role in improving the performance and quality of Islamic banking services. However, its successful implementation depends heavily on the bank's ability to effectively manage technology, integrate it with Islamic principles, and sustainably address various challenges.

5. Conclusion

Based on the research results and discussion, it can be concluded that digital transformation plays a significant role in improving the performance and quality of Islamic banking services in Indonesia. The implementation of digital technology has been proven to improve operational efficiency, accelerate transaction processes, and expand service reach to the public. Furthermore, digitalization has also had a positive impact on service quality, particularly in terms of ease of access, speed, and transparency of information received by customers.

However, the implementation of digital transformation still faces various challenges, such as data security risks, limited technological infrastructure, and low digital literacy among the public. Therefore, comprehensive efforts are needed from various parties, including banks and regulators, to optimize the implementation of digital transformation.

Thus, digital transformation is not only a necessity but also a crucial strategy for enhancing the competitiveness and sustainability of Islamic banking. However, its successful implementation depends heavily on the bank's ability to integrate technology with Sharia principles and the readiness of the overall supporting ecosystem.

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