

Innovation of The Sharia Banking Industry in Indonesia in The Digital Era

Alpin Paruzi¹, Hani Irhamdessetya²
Universitas Ngudi Waluyo^{1,2}

Email Correspondance: haniirhamdessetya@unw.ac.id

Abstract. Islamic banks are banks that carry out their business activities based on Sharia principles. Islamic banks function as intermediaries between parties who have excess entities and other parties who lack money (first deficit). Excess money through the bank is channeled to other parties for the needs and benefits of both parties. The research method used in this study is a qualitative descriptive method that focuses on individual observations. In this study, it is described accurately from various Scientific Journals of Islamic Economics, Islamic Economics Scientific Journals, of the objects studied to get a more complete picture. The Strategic Role of the Islamic Banking Industry Community economic development must continue to be improved by taking advantage of the various opportunities that exist in the digital financial era, which is important in the use of technology in products. Today's banking competition is getting tougher. Digital technology has changed the changes in many companies where they create various kinds of implementations to benefit from the digitalization of business life as a whole, including digital banking conversions that require many changes to elements of business practices such as management and organizational structure. In sharia banking, various efforts are made to increase the level of compliance to meet sharia standards and sharia governance can be implemented in synergy between bankers and supervisors of sharia DPS and OJK, which have three functions at once, namely protection, assisting in the development of sharia banking and consulting activities related to bank development. sharia.

Keywords: Industry, Economic Development, Governance.

Introduction

Background

Indonesia has a great opportunity to increase the country's economic growth through the development of creative industries. The industrial world is entering a new era that is experiencing changes called the Industrial Revolution 4.0. The term industrial revolution 4.0 is a comprehensive change that covers all aspects of industrial production in a combination of digital and internet technology, whose implementation at the current conceptual stage focuses on the automation of application processes with the support of information technology, so that human involvement is minimal.

Industry 4.0 is aimed more at the millennial generation, who are currently considered educated and understand technological developments. The millennial generation itself is often referred to as Generation Y, namely the generation born between the late 1980s and early 2000s. This generation is generally characterized by increased use and knowledge of communication, media, and digital technology. In terms of time, the millennial generation is currently in a fertile period, so it is very possible to prepare the human resources of millennial generation workers to face the industrial revolution 4.0.

Banks are the heart of the economy in a country, without banking, it becomes paralyzed. Banking is the business center of the economy which is defined in retail banking receiving money from third parties and banking expansion is determined financing Banking institutions care about people whose surplus units are credited to those who have deficit units.

Islamic banks are banks that carry out their business activities based on Sharia principles. Islamic banks function as intermediaries between parties who have excess entities and other parties who lack money (first deficit). Excess money through the bank is channeled to other parties for the needs and benefits of both parties. In this principle the relationship does not appear as a debtor and creditor, but a partnership relationship is created between the fund provider (shohibul Negara) and the fund manager (mudharib).

The most important factor in the growth and development of the Islamic economic ecosystem is human resources. Human resources are the biggest problem for all parties, including Islamic banking. Humans are the most important factor or important point or central point of all world activities. The development of an Islamic banking financial institution is largely determined

by the quality of its human resources. To advance banking institutions, management and optimization are needed in its application. Islamic banks can develop in Indonesia. This development can be seen from the emergence of various Islamic banks, even recently the margin applied by some Islamic banks. Institutional growth is in line with the development of Islamic banking, so there must be the availability of human resources who are experts in the field of Islamic financial institutions. This should be of particular concern in the development of Islamic banking institutions because the people involved must have special expertise and abilities in Islamic banks to respond to the challenges of developing information technology which continues to develop in the digitalization era.

Sharia banking as the main choice for the public to carry out payment operational activities and other financial transactions. To achieve its goals, the bank must continue to innovate so it must make things easier for its customers and its economic activities. The Islamic banking sector is also growing rapidly and can encourage economic activity. Because in this case, Islamic banking is an industry that can support the productive allocation of public funds into the economy, and also act as an intermediary that can help regulate, expedite the flow of money between various institutions and other sectors so as to facilitate the economy.

Fintech is an innovation in financial services that uses technology so that people can easily use financial products and services, weakening barriers to market entry. Current developments in fintech are changing financial business models, where lowering barriers to entry provides a role for fintech leading to unregulated behavior that drives business models as it should be for regulated companies or institutions. Since then, the development of fintech in the world has started in the 19th century with the introduction of the telegraph and has grown in the following years, especially in this digital era.

Financial inclusion is open access and using a variety of convenient and affordable financial services. Financing inclusion includes financial services that are sustainable, relevant, cost-effective and meaningful for those who are financially disadvantaged especially for rural residents. These services include savings, financing, insurance, with good enough, reliable and flexible conditions of use and design are quite good

Digital banking or digital banking is a new product, as a new product for some customers it is certainly not easy for customers to accept. All banking matters can be completed with one smartphone application, none even offer offline branches. Therefore, trust is a factor to consider when choosing a banking service.

Digitalization is a difficult and complicated journey. Take advantage of this opportunity as long as it requires careful investment, planning and decision-making, coordinated decisions involving all levels of the bank. Businesses that fail to understand the risks that can undermine these franchise agreements are built up over generations. But if CEOs can successfully overcome the various strategic challenges posed by digital developments, they can invest their business in competing and effectively capturing long-term growth curves. Digital banking, the initial increase in understanding the gaps and opportunities for services using such technology is great, banking also gave birth to mobile and online banking that efficiently expands the range of services, overcomes geographical challenges. Digitization is a difficult and complex journey. Take advantage of this opportunity as long as it requires careful investment, planning and decision-making in coordinated decisions involving the entire bank.

The Strategic Role of the Islamic Banking Industry Community economic development must continue to be improved by taking advantage of various opportunities that exist in the digital economy era, which is important in the use of technology in products. Therefore, Islamic banking must strengthen itself in order to enhance its role in Indonesia's economic development. The Islamic banking sector must become a strong industry with a high market share and become the choice of the Islamic banking sector audience. this is a manifestation of the general awareness of Muslims, applying the concept of Sharia the economic sector must be able to develop into a major player in the banking sector, bearing in mind that the majority of Indonesia's population is predominantly Muslim.

The digital era has encouraged people to innovate in technology to become more advanced and can change the way people live today (today's changes) and tomorrow (future changes). In addition to innovation, in this era, market conditions have also changed, resulting in lower prices, new and unexpected products, new and unexpected consumers and more diverse consumers. The digital era offers both opportunities and threats to the sustainability of all companies, including Islamic banking institutions. For a change there are a number of benefits available to those in the

industry. Namely, encouraging profits to be optimally maximized if optimizing products and tools for product promotion using technology without having to go into the field.

Formulation of the problem

The formulation of the problem of this study include:

1. How is the innovation strategy for the Islamic Banking industry in Indonesia in the digital era?
2. How to implement an innovation strategy for the Islamic Banking industry in Indonesia in the digital era?

Research methods

The research method used in this study is a qualitative descriptive method that focuses on individual observations. In this study, it is described accurately from various Scientific Journals of Islamic Economics, Islamic Economics Scientific Journals, of the objects studied to get a more complete picture. The data technology used in this study is a literature study technique because the sources of information used vary from literature review which includes books, journals, relevant articles, news and other sources. Then it is based on the research object. This research includes research in the nature of library studies (library studies). Library research (library research) is a study conducted by collecting data, information and various other information contained in the literature study. The type of data from this research is qualitative. The collected data were analyzed first and described using descriptive methods. So analyzing the data that has been taken through several steps including collecting information according to the research problem, classifying data units based on the type of data defining and analyzing the data to be graphed conclusions.

Results and Discussion

Sharia Banking Industry Strategy in the Digital Age

The Strategic Role of the Islamic Banking Industry Community economic development must continue to be improved by taking advantage of the various opportunities that exist in the digital financial era, which is important in the use of technology in products. Today's banking competition is getting tougher. With the enactment of the ASEAN Economic Community (AEC) in 2016 for the banking industry, this is a once in a lifetime opportunity to challenge the Indonesian Islamic banking sector. Especially as a new element, the market for the Islamic banking sector in Indonesia is still low compared to neighboring countries such as Malaysia. In addition, if you look at the overall wealth of the total banking sector, the size of the balance sheet of Islamic banking is still in the study stage. 5% Islamic banking assets in 2016 are at a more advanced stage when compared to neighboring countries.

Digital banking is the result of the personalization of Islamic banking from the existence of IKD. Islamic banking has a strategic role in relation to national economic development. Improved performance is in the Islamic banking system. This is an integral part of the competitive response of the two leading financial service institutions and banking systems. A form of healing in other words, using today's technological evolution which is often thought of as the digital age.

It is difficult for the Indonesian financial sector to react quickly to changes in the digital era. In this case, changing the format of the consumer behavior requirements of the bank is shifting to a particular digital era of digital banking innovation. This is because bank customers may reject sharia and of course people tend to switch to other sharia financial institutions such as sharia fintech. However, in this case there are two types of strategies, namely, marketing strategies that are commonly used such as finding new customers (new clients) and strategies to retain existing customers (retaining customers).

The government's strategic efforts in developing the Islamic economy began to be put into practice in 2001 with the passing of a 2008 law as the legal basis for Islamic banking practices, namely the National Sharia Securities Law No. 19 of 2008. In addition, Banking Law No. 21 of 2008. Adaptation of Islamic Banking in Indonesia is also partly regulated by the Bank Indonesia financial jurisdiction. This was also carried out by the Supreme Court as the owner of legal authority, Perna also issued number 2 of 2008 concerning the preparation of Sharia Economic Law (KHES) within the religious courts.

Islamic banking needs to start taking advantage of the demographic bonus and dive into international banking, joining the first Islamic bank in Indonesia, namely Bank Muamalat. In addition to focusing on raising funds from the public sector, government institutions and the private sector, banks must mobilize foreign currency fundraising programs through empowering overseas

branches. In addition, Islamic banks can take advantage of it through the financial activities of the Islamic Banking Working Group (WGPS). Referral program through affiliates and other companies. Sharia Commercial Banks (BUS) can cooperate with several Islamic People's Financing Banks (BPRS). Understanding the concept of mutual help in terms of goodness and jama'i charity (carried out together) or the synergy of international sharia banking must begin to develop. Sharia Banks at the WGPS Unit level can implement joint product synergies. Because it is a joint product, people know it more as a joint movement, which is more interesting and can be very attractive for the development of Islamic banking.

In order to support product success and support improvement, Islamic banks must have a sophisticated system for technology-based products. Using this technology, for example products, can facilitate customer access to all financial products. And can store customer personal information to avoid unexpected opportunities in the future. The dominant development of Islamic banking in that era was the use of sophisticated information technology.

In sharia banking, various efforts are made to increase the level of compliance to meet sharia standards and sharia governance can be implemented in synergy between bankers and supervisors of sharia DPS and OJK, which have three functions at once, namely protection, assisting in the development of sharia banking and consulting activities related to bank development. sharia.

The current Islamic banking resource recruitment system is adequate, making technical skills a mandatory standard that must be possessed by candidates, not just communication and marketing skills, not just the ability to handle syar'i arguments. The Industrial Revolution 4.0 makes technology management a benchmark for opportunities to manage the market share that has been formed so far. The complexity of information technology is the most dominant thing for the development of Islamic banking. Digital software engineering and big data can be used as a risk analysis for prospective customers. It's not difficult for technology because almost everyone has it. social media stores their personal data.

In the era of digital finance, Islamic banking must create competitiveness by utilizing technology in e-commerce. It is necessary to create products that are different and close to the community in a new way, namely providing more experience for the public to know the product, giving a new impression and experience in transacting in accordance with Sharia principles. An impressive muamalah transaction experience adapted to technological developments using technology at every muamalah event.

Financial stability can be achieved through a flexible risk management and budget planning process. Islamic banks must be prepared to budget for several expenses which include long-term investments that prioritize obtaining long-term returns, for example the cost of research and development of banking products. This readiness is shown by the attitude of management that is ready to postpone short-term income by allocating costs for long-term investment costs.

The key to the development of Islamic banking is product innovation. Product innovation is a strategic issue and is a shared responsibility between banks as business partners, the government through the OJK as the regulator and the Indonesian Ulema Council (MUI). To achieve this, the key objective of product innovation is to achieve financial stability. With increasing demand and increasing product variations, more risk management is needed to create stability in the financial system. Risk management is very much needed by Islamic banks because Islamic banks are unique in having principles and operations that are very different from conventional banks. In product innovation, risk management factors must be considered to minimize the risk of loss. Understanding that financial stability requires good coordination between the OJK and business people is about implementing relevant policies so that financial stability can be achieved. With good financial stability, Islamic banks can implement banking product innovation strategies.

For Sharia fintech, it is very necessary to follow Sharia corridors, such as the principles of contract law and fulfillment of conditions and pillars arising from applicable law. This board also oversees the Sharia fintech company Sharia Supervisory Board (DPS) as a party that is considered competent in the field of Islamic Economics and Business. Basically, sharia fintech must be related to one of the fiqh muamalah principles, namely "taradhin", namely the principle of the willingness of the parties to make an agreement.

Fintech is the creation and innovation of technology-based financial services, making it easier for customers to access Fintech services to align its presence with creators currently using electronic money as a medium. Entrepreneurs prefer modern internet-based financial systems. Islamic banking for startups has launched an application for qordhi or mudharobah contract products that can be used anywhere. To provide access to small and medium enterprises to banking products.

In addition, the next product that can be developed by Islamic banks is murabahah financing. Banking in this context cooperates with e-commerce to facilitate customer operations in carrying out online financing through Islamic banking applications so that all parties can use banking products.

4.2. Implementation of the Sharia Banking industry innovation strategy in the digital era

Digital technology has changed the changes in many companies where they create various kinds of implementations to benefit from the digitalization of business life as a whole, including digital banking conversions that require many changes to elements of business practices such as management and organizational structure. Since digital change is a change in the organizational structure it would be logical to incorporate existing business strategies into it. Internet resolution creates a new image, a new medium that most people are already using at this stage. This is an implementation of the icon roll extension from the Internet.

In facing the revolution, we focus on many things in Industry 4.0. According to the Minister of Industry Airlangga Hartarto, there are 4 strategic steps for Indonesia to implement Industry 4.0, namely, *First*, the Ministry encourages Indonesian workers to continue to learn and improve their skills and understand the use of Internet of Things (IoT) technology or integrating Internet capabilities into industrial production lines. *Second* the use of digital technology to increase the productivity and competitiveness of the small and medium sector (IKM) to enter the export market through the IKM e-intelligent program. This program aims to expand the market in the world value chain and industry 4.0 in the future. *Third*, the national industry is expected to be able to use digital technology such as big data, autonomous robots, cyber security, cloud, and augmented reality. *Fourth*, technological innovation through development for startups by facilitating business incubators. Apart from the opportunities obtained, of course there are also challenges that must be faced in facing the industrial revolution 4.0. IoT implementation in various elements, including the financial and banking sector, it is not impossible that there will be more visible gaps in society. With IoT, many human roles will eventually be replaced by robotic machines.

If these four things are implemented in Indonesia, especially in Islamic banking, it will give birth to the latest innovations that can drive the Indonesian economy going forward, this condition will make Islamic banking increasingly able to meet consumer needs and develop with the rapid growth of technology and the use of all-round digitalization. To use. All business processes must comply with Sharia fintech meeting the requirements of Sharia principles, pillars and provisions. In ensuring that all Sharia fintech business processes comply with Sharia principles, supervision of business processes is always carried out by the Sharia Supervisory Board (DPS). The implementation of Sharia fintech must follow the principles of muamalah fiqh and not contain things that are prohibited in Islamic fiqh.

Therefore, prior to the 4.0 revolution, which was a condition where important changes occurred in the production process, people challenged the Islamic banking sector with comprehensive strategies and innovations that combined digital technology with interactivity for customers, which could facilitate and access services by Islamic banking users. On the other hand, the presence of the Industrial Revolution 4.0 certainly presents its own challenges for the banking sector, so that banks are required to have the right strategy to overcome and deal with existing problems. The rapid development of digital technology is a new challenge, but it will soon end along with the development of digital banking technology. Because the banking sector is one of the financial service sectors that is developing and driving Indonesia's economic growth in the future, the choice is to use digital banking technology which will continue to survive.

Using qordhi or mudharobah contract products that can be used anywhere to provide small and medium businesses access to sharia banking products. In addition, the next product that can be developed by Islamic banks is murabahah financing. Banking in this context cooperates with e-commerce to facilitate customer operations in carrying out online financing through Islamic banking applications so that all parties can use banking products.

One of the challenges that must be answered immediately in Islamic banking is still involved in optimal Islamic banking services. Offering sharia banking products, namely through sharia banking product innovation Product innovation in sharia banking is following the development of sharia banking trends so that sharia banking becomes a strong industry and becomes the choice for the sharia banking community, it is very necessary to innovate using products. Providing opportunities for the use of versatile ICT products to be developed together with economic development, building and adding sharia banking products that are right on target, synergizing with parent banks, improving training and communication (focus on equality and distinctiveness) and

improving governance and operational risk management Strengthening sharia business and banking system general overview.

Islamic banking in relation to the digital era, there are more and more digital innovations in banking technology. One of its goals is to generate interest in new perspectives, especially among today's millennials where almost all operations are carried out with digital technology. Indonesia's financial sector faces challenges in responding quickly to various changes in the digital era. Changes in consumer behavior require banks in this context to move into the digital era in the form of digital banking innovations. Because if this is not done, then customers will leave Islamic banking and of course people will move to other Islamic financial institutions such as Islamic fintech. This technological advancement can be obtained by anyone, including Islamic finance players. Branches can also provide practicality and convenience when making payments and various other transactions. In order for the Indonesian people's understanding of Islamic banks to improve, several strategic efforts are needed in terms of promotion and education, which can influence aspects of people's religiosity so that they can change the paradigm and attitude of the community to become better and more interested in Islamic financial products. Especially in today's era where banks must be able to provide real-time contextual experience services, technical excellence, contactless engagement and several other intelligent actions based on artificial intelligence.

Conclusion

The Strategic Role of the Sharia Banking Industry Community economic development must continue to be improved by taking advantage of various opportunities that exist in the digital financial era, which is important in the use of technology in products. Banking competition is currently getting tougher With the enactment of the ASEAN Economic Community (AEC) in 2016 for the banking industry This is an opportunity once in a lifetime challenges in Indonesia's Islamic banking sector.

In sharia banking, various efforts are made to increase the level of compliance to meet sharia standards and sharia governance can be implemented in synergy between bankers and supervisors of sharia DPS and OJK, which have three functions at once, namely protection, assisting in the development of sharia banking and consulting activities related to bank development. sharia.

Offering sharia banking products, namely through sharia banking product innovation Product innovation in sharia banking is following the development of sharia banking trends so that sharia banking becomes a strong industry and becomes the choice for the sharia banking community, it is very necessary to innovate using products.

Bibliography

- Tartila, M. (2022). Sharia Banking Industry Strategy in Facing the Digital Age. *Scientific Journal of Islamic Economics*, 8(3), 3310-3316.
- Apriyanti, H. W. (2018). Model of Islamic Banking Product Innovation in Indonesia. *Economica: Journal of Islamic Economics*, 9(1), 83-104.
- Apriyanti, H. W. (2018). The Development of the Islamic Banking Industry in Indonesia: Opportunity and Challenge Analysis. *MAXIMUM: Media Accounting Muhammadiyah University of Semarang*, 8(1), 16-23.
- Suganda, R. (2023). Analysis of Opportunities and Challenges of Islamic Banking in the Digital Age. *Scientific Journal of Islamic Economics*, 9(1), 677-683.
- Syafitri, A., & Nasution, M. I. P. (2023). Islamic Banking Capabilities in Optimizing Existence in the Digital Era 4.0. *MES Management Journal*, 2(2), 176-182.
- Pramono, N. H., & Wahyuni, A. N. (2021). Strategy for Innovation and Collaboration of Islamic Micro Waqf Banks and Indonesian MSMEs in the Digital Age. *Scientific Journal of Islamic Economics*, 7(1), 183-194.
- Rosida, I. N. (2022). Analysis of the Potential of Islamic Banking in Indonesia in Maintaining Existence in the Digital Age. *HUMAN FALAH: Journal of Islamic Economics and Business Studies*, 9(1).
- Dz, A. S. (2018). Digital-Banking Based Sharia Banking Financial Inclusion: Optimization and Challenges. *Al-Amwal: Journal of Sharia Economics and Banking*, 10(1), 63-80.
- Tazkiyyaturrohman, R., & Sriani, E. (2020). Opportunities and Challenges of Islamic Banks in the Industrial Age 4.0. *Transformation: Journal of Islamic Religious Studies*, 13(1), 74.

Shabri, H. (2022). Digital Transformation of the Indonesian Sharia Banking Industry. *El-Kahfi/ Journal of Islamic Economics*, 3(02), 1-7.