

# Digital Transformation in Islamic Banking: A Literature Study on Fintech Innovation, Open Banking, and Sharia Compliance in the Industrial Era 5.0

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## ABSTRACT

Digital transformation in banking sharia is inevitability in the Industry 5.0 era, when collaboration humans and technology must still in harmony with efficiency operational, innovation, and compliance to principle Sharia. Research This aim examine literature scientific related integration digitalization in banking sharia, with focus on fintech innovation, open banking implementation, and compliance regulations sharia in Indonesia. The method used is studies literature qualitative with analysis content to publication national and international 2018–2025 period. Study results show that digital innovations such as sharia mobile banking application, halal digital wallet, and integration fintech solutions are capable increase efficiency, expanding inclusion finance, as well as strengthen Power competition banking sharia at the global level. However, a number of challenge Still appear, especially related human resource readiness, regulations digital contract based sharia, and the need for sharia audits that are supported technology. The implementation of open banking requires collaboration strong between regulators, institutions finance, and fintech players to ensure equality, transparency, and protection aligned consumers with principle maqāsid al-sharī'ah. Study This conclude that success digital transformation of banking sharia depends on integration harmonious between innovation technology, spiritual values, and governance adaptive sharia. This study also provides contribution theoretical about the concept of sharia digital governance as well as recommendation practical for regulators and industry banking use build ecosystem finance inclusive, ethical, and sustainable sharia in the digital era.

**Keywords :** Digitalization; Islamic Fintech; Open Banking; Sharia Compliance; Industry 5.0.

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## INTRODUCTION

The Industrial Revolution 5.0 signifies a transformative era characterized by a synergistic interaction between human agents and technological advancements, with a real emphasis on individual experience and sustainable practices. Within this framework, the digital transformation of Islamic banking is emerging as an important initiative that aims to increase competitive advantage, while upholding the basic sharia principles of equality, transparency, and ethics. The phenomenon

of increasing use of mobile banking services, e-wallets, and Islamic fintech platforms indicates a change in customer behavior towards a faster, more efficient, and more inclusive digital financial system [1]. This behavioral shift highlights that Islamic banking institutions can no longer rely solely on traditional branch-based services; therefore, digital transformation has become an urgent strategic necessity to maintain relevance within the modern financial ecosystem.

Digital transformation has transformed the financial services landscape globally, including banking systems that previously relied heavily on face-to-face interactions and manual processes. At the international level, the Islamic finance sector has recorded a surge in digital technology adoption: for example, according to the Global Islamic Fintech Report 2023/2024, the volume of fintech transactions in the Islamic finance ecosystem is estimated to reach USD 138 billion in 2022-2023 and is projected to more than double towards USD 306 billion by 2027 [2]. This rapid growth indicates that digitalization is not merely a technological trend but a critical determinant of competitiveness in the global Islamic financial industry. Without adequate adaptation, Islamic banking institutions risk falling behind both conventional financial institutions and rapidly evolving fintech companies.

In Indonesia, although the country-specific figures are still limited, studies show that Islamic banks are starting to adopt mobile services, digital wallets, and electronic payment platforms to expand financial inclusion and improve customer experience [3]. However, the penetration of digital services within Islamic banking remains relatively lower compared to conventional banking institutions, suggesting the need for accelerated digital transformation to fully utilize Indonesia's significant potential in the Islamic finance market.

However, in the midst of these dynamics, a real problem arises: the ability of Islamic financial institutions to face the challenges of digital infrastructure, cybersecurity, human resource readiness, and the integration of sharia principles in the digital system. For example, one study found that although there are three Islamic banks in Aceh. Bank Syariah Indonesia (BSI), BCA Syariah, and Bank Aceh have started implementing digital wallets and biometric authentication, the transformation process is still "ongoing" and limited by infrastructure and human resources [4]. This condition reveals a gap between technological potential and institutional readiness, highlighting the importance of deeper academic inquiry into the factors that influence the successful implementation of digital transformation in Islamic banking.

This specific context underscores the significance of digitalization in Islamic banking as a critical issue from a socio-cultural perspective. Islamic banks function not only as providers of financial services but also as institutions that embody financial values rooted in Sharia principles such as equality, transparency, and inclusivity. Successful digital transformation has the potential to expand financial accessibility for historically marginalized populations, reduce economic inequality, and enhance Sharia-based financial literacy. Therefore, digital transformation in Islamic banking has broader implications not only for institutional efficiency but also for strengthening financial inclusion and socio-economic empowerment within Muslim communities.

Nevertheless, if such transformation occurs without careful consideration of the cultural, ethical, and compliance dimensions embedded in Sharia principles, it may undermine customer trust and weaken the institutional integrity of Islamic banks. Consequently, the development of digital financial systems in Islamic banking must be accompanied by adaptive Sharia governance frameworks to ensure that technological innovation remains aligned with the objectives of *maqāṣid al-sharī'ah*.

Although a number of studies have examined digitalization and fintech in Islamic finance, such as a bibliometric study that records the trend of sharia fintech research between 1999-2022 according to Qudah et al., (2023), there is still a gap in research that deeply explores the experience, meaning, and transformation process from the internal perspective of Islamic bank institutions (managers, Sharia Supervisory Boards, and customers), especially in the Indonesian context. Many studies are cross-country quantitative or general reviews, but few use qualitative methods to understand how sharia institutional actors navigate the challenges of digitalization while maintaining sharia commitments. Thus, there is an academic need to fill the literature gap related to the internal processes and cultural dynamics of Islamic bank organizations in the digital era.

Digital transformation in the banking sector is changing institutional structures, customer interactions, and risk management frameworks. This process requires adaptive regulation, inter-organizational cooperation, and human resource readiness to ensure sustainable development in the financial ecosystem [6]. Without adequate regulatory readiness and governance mechanisms, digital transformation may also introduce new risks such as data security vulnerabilities, legal uncertainty in digital contracts, and potential violations of Sharia compliance in electronic financial transactions.

Therefore, this study reviews the latest literature to understand how digital transformation is applied in Islamic banking, as well as how fintech and open banking innovations can strengthen the Islamic financial system in the Industry 5.0 era. This research focuses on exploring the process, experience, and meaning of digital transformation in the context of Islamic banking institutions in Indonesia, as well as identifying challenges in implementing Sharia Compliance in the digital financial system. Theoretically, this research contributes to the development of an understanding of digitalization in Islamic finance with a qualitative approach that highlights the meaning and process, and practically provides recommendations for regulators, Islamic banks, and fintech developers so that digital transformation is in line with the principles of *maqāṣid sharia* and the need for national financial inclusion.

## METHOD

This research uses a qualitative approach with the literature study method (*library research*). This approach was chosen because the purpose of the research is not to test the hypothesis empirically, but to understand the phenomenon of digital transformation of Islamic banking in depth through the search of relevant, up-to-date, and credible scientific literature. This method allows researchers to

systematically explore ideas, theories, and results of previous research to find patterns, tendencies, and gaps in research that are still open [7].

Research data was obtained through secondary literature reviews sourced from various scientific publications, such as SINTA-accredited national journals and reputable international journals indexed by Scopus and DOAJ in the 2018–2025 period. The search was conducted through several academic databases such as Google Scholar, ScienceDirect, SpringerLink, MDPI, and *Taylor & Francis Online* using keywords: "*sharia digital banking*", "*Islamic fintech*", "*open banking Islamic finance*", and "*Sharia compliance in digital finance*".

Data analysis was carried out using a content analysis methodology. This methodology allows scholars to distinguish the main themes that emerge from the literature in a systematic and organized manner [8]. The analysis process is carried out in several stages:

1. Data reduction: The researcher reads and selects each article to identify content relevant to the research topic.
2. Theme categorization: The information from each article is grouped into three main categories, namely:
  - a. Digital innovation and adoption, including the use of fintech, mobile banking, blockchain, and open banking in the context of sharia.
  - b. Sharia compliance and ethics include the role of the Sharia Supervisory Board, regulations, and fatwas related to the digitization of contracts and transactions.
  - c. Policy challenges and recommendations, including data security aspects, human resource readiness, and policy directions of regulators such as OJK and DSN-MUI.
3. Data interpretation: After grouping, each category is analyzed to find patterns of relationships between themes, research trends, and emerging *research gaps*.

To maintain the validity of the analysis results, this study applies the principle of source and time triangulation. Sources are obtained from a variety of different academic publications, while the publication period is expanded (2018–2025) to include the latest dynamics in digital Islamic banking practices. In addition, all sources are critically reviewed to avoid interpretation bias and ensure the accuracy of the data.

## RESULTS AND DISCUSSION

### Digital Innovation in Sharia Banking

Islamic banking, as an integral component of the Islamic financial framework, faces significant challenges in maintaining its competitiveness amid the contemporary landscape of digital disruption. The emergence of digital innovation is not only a need to improve operational efficiency but also serves as a channel to engage with societies that have not yet been integrated into the formal financial system (the unbanked population). The idea of digital transformation in the realm of Islamic banking must wisely navigate the balance between technological advancement and an unwavering commitment to Sharia principles, which include principles such as equality, transparency, and the prohibition of usury, *gharar*, and

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*maysir* [9]. To guarantee that the services provided are characterized by considerations of efficiency and ethics, in line with Islamic values. Successful digital transformation has the potential to increase financial inclusion and generate broader benefits for Muslim communities [10].

In theory, the adoption of digital innovations in the realm of Islamic banking can be described into two categories: product innovation and process innovation, where financial institutions conceptualize and implement technology-based services, including sharia-compliant mobile banking applications, contract-based online financing mechanisms, and digital platforms for zakat and waqf management. The theoretical framework is relevant to explain the acceptance of innovation among the Muslim community, taking into account important factors such as the complexity of the technology, alignment with religious principles, and the visibility of the benefits provided by the service [11].

According to Nur et al. (2025), Islamic banking institutions must embrace financial technology in order to effectively compete with regional competition in Southeast Asia. The existing literature shows that the digitalization process has contributed substantially to improving the efficiency and accessibility of Islamic banking services. For example, Bank Syariah Indonesia (BSI) reported a 43% increase in digital transactions in 2023, indicating an important shift in consumer behavior in favor of digital-oriented financial services. Technological advances such as mobile banking, internet banking, and digital onboarding have become important drivers in expanding the spectrum of services offered without the need to build new physical infrastructure (OJK, 2023). In contrast, sharia-compliant fintech companies such as Ammana, Dana Sharia, and ALAMI have successfully facilitated greater inclusive access to microfinance through peer-to-peer (P2P) lending models based on sharia principles, thereby increasing opportunities for Muslim micro, small, and medium enterprises (MSMEs) operating in the informal sector [13].

Furthermore, research by Ashraf et al., (2025) found that digital innovation in Islamic banks not only accelerates transaction efficiency, but also strengthens customer engagement through improved service quality and data-driven personalization. This is in line with the view of Mardiyah et al., (2025) who say that digitalization in the context of Industry 5.0 requires a balance between automation and human-centric innovation rooted in sharia values. Mahyar (2025) underscores the need for harmonization between digital innovation and a regulatory framework that is compliant with Sharia to prevent differences in the implementation of sharia fintech services.

The digitalization of Islamic banking has resulted in a plethora of opportunities to increase financial inclusion and strengthen the industry's status in the global financial landscape. Nonetheless, the efficacy of digital transformation depends not only on the adoption of technology, but also on the capacity of institutions to uphold the integrity of Sharia principles.

The maqashid al-sharia framework serves as an important tool for evaluating whether digital innovation is aligned with the goals of Islamic jurisprudence, which include property protection (*hifz al-mal*), the promotion of social justice, and the improvement of people's welfare. As a result, it is critical to improve digital Sharia

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audits, technology-based regulatory frameworks, and the proactive involvement of Sharia Supervisory Boards to ensure a strong foundation of transparency and accountability.

From a strategic point of view, Islamic banking should not operate in a vacuum. Cross-sectoral collaborative efforts, facilitated by open banking mechanisms, will increase inclusivity, encourage adaptive business models, and preserve the sustainability of Islamic ethical values in the midst of digital transformation.

The phenomenon of digital transformation in Islamic finance goes beyond the conversion of services into digital formats; it includes a holistic reconfiguration of Sharia compliance business models, organizational processes, and paradigms. As a result, digitalization should be conceptualized as an institutional evolution that combines technological capabilities with Sharia principles to ensure sustainable long-term competitiveness and uphold ethical integrity in Islamic financial institutions. Asushi & Mohammad Miah (2023), digital transformation in Islamic banking goes beyond mere technology adoption; It is a strategic initiative that aims to reconcile operational efficiency with spiritual values. Digital innovations demonstrate their potential to improve accessibility and competitiveness; However, they must remain anchored in the principles of maqashid al-sharia, which serve as the basis for ethical and legal considerations.

The success of Islamic banking in the digital age depends on the intricate relationship between innovation, regulatory frameworks, and spiritual principles. The implementation of open banking initiatives that comply with Sharia principles is anticipated to create a significant avenue for collaboration and wider integration of the Islamic financial ecosystem. With a strong governance framework, responsive Sharia audit methodologies, and enhanced digital literacy, Islamic banking is well-positioned to emerge as a fundamental element of an inclusive, ethical, and sustainable economy in the context of the Industrial Revolution 5.0.

### **Open Banking and Fintech Collaboration**

The open banking paradigm has emerged as an important catalyst for synergistic collaboration between sharia-compliant financial institutions and fintech companies, aiming for the development of innovative financial offerings. Through the utilization of Application Programming Interfaces (APIs), Islamic banks make it possible to seamlessly integrate their services with many halal financial platforms, including e-commerce solutions, digital wallet applications, and QRIS systems that comply with sharia principles. Duncan (2024) explains that open banking frameworks allow financial institutions to securely share data with third parties, thereby encouraging transparency, innovation, and inclusion. In the context of Islamic finance, open APIs can foster halal fintech collaborations that support financial accessibility in accordance with Sharia principles.

This strategic partnership facilitates the expansion of the operational ecosystem of Islamic banks while maintaining compliance with the basic principles of sharia compliance [19]. This partnership enables Shariah-compliant financial institutions to expand their operational framework while maintaining adherence to Shariah compliance principles. Therefore, it is imperative for financial entities to

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constantly engage in innovative practices while resolutely upholding Islamic principles in all transactions undertaken. Continuous innovation, coupled with a deep understanding of Sharia, will facilitate Sharia banks in realizing sustainability and integrity goals in a competitive global economic environment. As stated by Fasya (2022), the implementation of appropriate innovation has the potential to produce ethical and inclusive resolutions, thereby strengthening the attitude of Islamic banking institutions in the midst of the challenges posed by globalization and the competitive landscape of contemporary business.

Strategic collaborations with *FinTech startups*, the implementation of open banking initiatives, as well as the digital transformation of the internal operational framework, are the main catalysts for the evolution of banking business models [21]. These changes not only improve operational efficiency, but also expand access to services to previously underserved segments. These initiatives foster a more inclusive and responsive landscape that aligns with customer needs, thereby promoting sustainable economic development and improving the overall quality of life for individuals. These initiatives are in line with advances in financial technology, which have revolutionized the landscape of the banking sector, generating new prospects for innovation and increased efficiency [22].

According to Khumairok (2023), innovations in the financial services sector, including digital payment platforms and *peer-to-peer lending* mechanisms, further strengthen banks' competitive positions amid the challenges presented in the *Society 5.0* era. Therefore, it is imperative for the banking sector to continue to adapt and engage in collaborative efforts with fintech entities to capitalize on existing opportunities and address emerging challenges, thereby ensuring the sustainability and stability of the financial system in the context of this rapid transformation. Adaptive regulatory frameworks and stakeholder collaboration will be critical in building a strong ecosystem conducive to innovation. By understanding the dynamics of fintech and its impact on the banking landscape, we can foster an environment that nurtures innovation while strengthening financial system stability. It is critical to ensure the proper implementation of legal regulations to protect consumers and maintain the integrity of the financial system in the face of such rapid advances. The efficacy of this collaboration will depend heavily on the capacity of financial institutions to quickly adapt to evolving regulations and the ever-evolving technological landscape.

The phenomenon of digital transformation in the realm of Islamic banking is a significant opportunity in addition to strategic challenges. The emergence of technological innovations, including open banking, blockchain, and fintech integration, facilitates increased operational efficiency and promotes financial inclusivity; However, at the same time, it requires strengthening the principles of *maqashid al-sharia* as a framework of ethics and basic law. As according to Ali et al., (2022) The integration of artificial intelligence, blockchain, and open banking must comply with *maqāṣid al-sharī'ah*, ensuring that innovation remains consistent with justice (*'adl*), transparency (*ṣidq*), and public welfare (*maṣlaḥah*). Therefore, technological efficiency must be balanced with ethical accountability.

The effective realization of digital transformation in Islamic banking is highly dependent on collaborative synergy between regulatory bodies, financial

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institutions, academics, and fintech companies. Through the adoption of technology-driven sharia audit practices, the improvement of digital literacy, and the maintenance of cooperation between sectors, Islamic banking has the potential to emerge as a pioneer in the formation of a fair, transparent, and sustainable digital financial ecosystem that is in line with Islamic principles.

### **Shariah Compliance in the Digital Era**

Digital transformation has significantly changed the paradigm of the financial sector, which includes the Islamic banking system. In this case, sharia compliance becomes increasingly complicated because of the need to uphold the principles of *fiqh muamalah* in the midst of rapid technological advances. The *Maqashid al-Syariah* theory serves as an important framework for evaluating the suitability of digital products and services in relation to the purposes of Islamic law, in particular the protection of religion, life, intelligence, lineage, and property, to ensure that these changes are in line with Islamic ethical standards and the welfare of society. As a result, the integration of technology in Islamic banking must consider the dimensions of *maqashid* to achieve anticipated sustainability [25]. Furthermore, the application of *maqashid* principles can facilitate the development of more inclusive and sustainable innovations in the domain of Islamic finance [26].

Financial Services Authority (OJK) Regulation Number 10/POJK.05/2022 relates to Information Technology-Based Joint Funding Services (P2P Lending). This regulatory framework specifically describes the parameters that govern P2P lending operations in Indonesia, including Sharia compliance, as well as establishing the responsibilities of the organizers, prerequisites for stakeholders (funders and recipients), risk management protocols, and operational mechanisms [27].

Compliance with Sharia principles is a critical obstacle in the realm of digital transformation. The main concern lies in the legitimacy of digital agreements, which must comply with the basic principles of *ijab qabul*, information transparency, and transaction validity (*taqabudh*) in a virtual environment. The fatwa promulgated by the National Sharia Council-MUI NO: 116/DSN-MUI/IX/2017 has emerged as an important reference for financial institutions and service providers involved in sharia-compliant electronic monetary transactions in Indonesia, thus forming a legal framework and direction to improve the progress of the sharia economy in an increasingly digital context [28].

Research by Suswanto et al., (2025) underscores that in the absence of an enhanced role for Sharia Supervisory Boards in researching digital systems, there is a significant risk of violating Sharia principles caused by the spread of smart contracts and automated decision-making systems that are not aligned with Islamic jurisprudence. Within this framework, it is anticipated that Islamic banking institutions will seek to foster transparent and adaptive technology-based digital audit mechanisms that comply with Sharia principles.

According to Umayyatun (2025) explains that a deep understanding of Sharia principles in the context of digital technology is essential to ensure that innovation remains congruent with the divine values and *maqashid* inherent in Sharia. As a result, encouraging collaborative efforts among scholars, technocrats,

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and educators is essential to ensure that technological advances in Islamic education and economics are firmly rooted in religious values. Such collaborations are poised to not only strengthen Sharia compliance but also to produce a sustainable ecosystem conducive to the evolution of Sharia education and economic practices in Indonesia. This partnership can further stimulate innovation that is more in line with the demands of society, thereby facilitating the role of technology as an effective instrument in achieving the goals of maqashid Sharia. Other research shows that digitalization in Islamic banking has the potential to improve financial efficiency and inclusion, but at the same time poses new challenges to sharia compliance controls. A study by Kyila et al., (2025) highlights the importance of the role of the Sharia Supervisory Board (DPS) in ensuring that digital products such as mobile banking and blockchain platforms remain in accordance with the principles of wakalah and murabahah in Islam. Similarly, Syabani (2025) emphasized the important role of the Sharia Supervisory Board (DPS) in ensuring that digital financial products, such as mobile banking and *platform blockchain*, in line with the principles of wakalah and murabahah in Islamic finance. Meanwhile, research by Masruri et al., (2025) revealed that understanding tawhid and maqashid is a fundamental basis for evaluating the legality and performance of Islamic banks amid the challenges posed by digital economic disruptions.

Thus, the incorporation of religious principles in all dimensions of technological advancement is essential for the achievement of social well-being and sustainability within Shariah-compliant educational and economic frameworks. In the contemporary digital era, Sharia compliance goes beyond legal validation or compliance with regulatory frameworks; This embodies the commitment to maintain the essence of Maqashid al-Syariah in the midst of rapid technological advancements. The main challenge lies in the balance between digital efficacy and Islamic ethical standards. As a result, collaboration between regulatory bodies, Sharia Supervisory Boards, industry stakeholders, and academic institutions is essential. Digital transformation should be seen not as a threat to Sharia principles, but rather as a channel to strengthen the goals of justice, transparency, and prosperity in the Islamic economic paradigm. Therefore, the future trajectory of digital Islamic banking and finance will be firmly embedded in divine principles while remaining responsive to the dynamics of contemporary society.

### **Challenges and Recommendations**

Based on the results of the literature analysis, there are several main challenges that need to be addressed in the process of digitizing Islamic banking:

1. The readiness of human resources (Human Resources) in understanding the integration between technology and sharia principles is still limited, especially in the field of data analysis and digital security. An integrated training program is needed for Islamic banking practitioners on digital literacy and sharia digital governance. To ensure that they can adapt to the rapid changes in the financial industry. The program must cover technical aspects as well as relevant sharia values [33]. This collaboration is expected to create an effective training program, increasing public understanding of Islamic banking products and services in the digital era. This collaboration is

expected to create an effective training program, increasing public understanding of Islamic banking products and services in the digital era. It is important for Islamic banks to continue to innovate in their digital services in order to compete and meet the needs of modern society that is increasingly dependent on technology.

2. Regulatory limitations: The main challenge is not only on the technological infrastructure, but on the integration of digitalization with the legal principles of the Islamic economy [16], the existing legal framework has not fully accommodated blockchain-based transactions and smart contracts in the Islamic financial system could hinder the widespread adoption of this technology. Therefore, there is a need for the development of clearer regulations to ensure compliance with Sharia principles [34]. All-inclusive regulation will facilitate the establishment of an environment that encourages innovation, while simultaneously ensuring the preservation of integrity and adherence to Sharia principles in all financial transactions. A comprehensive approach to regulatory development requires the involvement of diverse stakeholders, including regulators, practitioners, and scholars, to formulate effective and sustainable resolutions. Such collaboration is essential to guarantee that the regulatory framework is not only adaptive to technological advances but also in accordance with core sharia principles.
3. There is a need for the Sharia Fintech Sandbox from the Financial Services Authority (OJK) as a forum for testing digital innovation in accordance with the principles of fiqh muamalah without sacrificing aspects of security and sharia compliance [35]. According to Aziz (2020), this progress will facilitate the assurance that the fintech products and services produced are able to meet the needs of the community, while simultaneously upholding the principles of equality and transparency in the transactional process. The application of these principles will increase individual confidence in sharia-compliant financial services and promote lasting economic development in the fintech ecosystem [36].

Actionable strategic recommendations involve increased collaboration between Islamic financial institutions, regulatory authorities, and halal fintech innovators to build a comprehensive and sustainable digital framework. In addition, the incorporation of the principles of maqāṣid sharia into any digital advancement should serve as a guiding principle, ensuring that the evolution of technology is consistently aligned with the ideas of justice, effective utilization, and socio-economic protection of society.

## CONCLUSION

This research proves that digital transformation is an important component for the sustainability of Islamic banking in the midst of the emergence of the Industrial 5.0 revolution. The digitalization process plays an important role in increasing financial inclusion, improving service efficiency, and strengthening innovation based on Islamic values. However, the implementation of digital

technology requires increasing governance related to sharia compliance at the same time to maintain the integrity and public trust in Islamic financial institutions.

Theoretically, maqāṣid sharia should serve as the fundamental ethical framework underlying any digital innovation, ensuring that the principles of *maslahah*, *'adl*, and trust are not overshadowed by a single focus on efficiency. The meeting of halal fintech, open banking, and digital sharia audit mechanisms presents significant prospects for the development of an inclusive and sustainable Islamic financial ecosystem. Nevertheless, barriers such as human resource constraints, regulatory readiness for smart contracts, and data security vulnerabilities must be proactively addressed through innovative policy and educational measures.

From a policy perspective, this study advocates: (1) the creation of the Sharia Fintech Sandbox by the OJK as a trial platform for digital financial products in accordance with *fiqh muamalah*; (2) increasing sharia digital literacy among the public and industry stakeholders; and (3) fostering cross-sector collaboration between academics, regulators, and the fintech industry to improve digital sharia governance. By adopting this multifaceted approach, digital transformation in Islamic banking is evolving into not only an economic efficiency mechanism but also a channel for promoting the values of justice, ethics, and prosperity in the global financial landscape. In terms of policy, the government and financial institutions need to strengthen digital sharia compliance regulations, expand collaboration with halal fintechs, and increase sharia digital literacy in the community.

It is recommended that regulatory bodies such as the Financial Services Authority (OJK) and the National Sharia Council (DSN-MUI) develop a framework for the trial of Shariah-compliant financial innovations (Sharia Fintech Sandbox) to ensure that all digital financial products comply with the principles of *fiqh muamalah*. The practical implications obtained from this study offer a basic basis for policymakers, scholars, and practitioners in the field of Islamic banking to build a sustainable and equitable digital ecosystem, while at a theoretical level, the findings of this study contribute significantly to the qualitative literature on the interaction between technological advances, Islamic values, and the sustainability of Islamic economic practices.

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