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From Technology to Trust: Understanding the Dynamics of Islamic Digital Banking

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ABSTRACT

The purpose of this study is to analyze how digital banking transformation influences the level of customer trust in Islamic digital banks in the new economy era. The rapid development of financial technology and the increasing use of digital services require Islamic banks to maintain a balance between technological innovation and the implementation of Sharia compliance principles, which serve as the fundamental basis for moral trust, institutional legitimacy, and the sustainability of long-term customer relationships. This study employs a systematic literature review approach by collecting and analyzing various academic studies, scholarly journals, and industry reports published over the past five years. Through thematic analysis, the study identifies four key factors influencing customer trust, namely technological innovation, service quality, data security, and adherence to Sharia principles. The article also examines how the integration of digital transformation and Islamic ethical values shapes perceptions of reliability and credibility in Islamic digital banking. The findings indicate that customer trust is built not only through technological efficiency and reliability but also through consistent adherence to Sharia values, which strengthen the moral foundation and competitive position of Islamic digital banks within the digital economy ecosystem.

Keywords: *Customer Trust, Digital Transformation, Islamic Digital Banking, Sharia Compliance.*

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1. | INTRODUCTION

The rapid development of financial technology (fintech) has transformed the way people interact with financial institutions, including Islamic banks. As a predominantly Muslim country, Indonesia holds significant potential for developing a more inclusive and competitive Islamic banking system. Digital transformation opens opportunities to expand access and improve service efficiency, but also presents challenges in maintaining Sharia values, data security, and the risk of disruption to conventional business models. Therefore, the success of digitalization depends heavily on the ability of financial institutions to maintain public trust through consistent application of Sharia compliance principles.

In response to these opportunities and challenges, the Financial Services Authority (OJK) is encouraging accelerated digital transformation through the 2020–2025 Indonesian Banking Development Roadmap, which emphasizes the importance of adopting emerging technologies. This push is increasingly relevant for Islamic banking, given that digitalization not only improves operational efficiency but also serves as a strategic foundation for expanding service access and strengthening Islamic financial inclusion in the digital economy era. This policy is formulated through a number of strategic initiatives shown in Figure 1.

Figure 1. Indonesian Banking Development Roadmap 2020 - 2025

With the increasingly strong direction of digitalization, trust has become an integral aspect in building loyalty and reputation for Islamic banks. Various studies show that customer trust is influenced by technological innovation, data security, and service quality (Abdurrahman, 2024; Gefen et al., 2021). Technologies such as blockchain increase transparency and strengthen confidence in Islamic finance (Alshater et al., 2022), while consistency with Sharia principles shapes perceptions of institutional credibility (Jamshed & Uluyol, 2024). Furthermore, the implementation of digital technology has been shown to increase efficiency and strengthen customer trust (Abdurrahman, 2024), and the adoption of Sharia-compliant fintech plays a crucial role in expanding digital inclusion and customer loyalty (Maniam, 2024; Ali et al., 2024).

However, empirical findings are not always consistent. Several studies highlight that digitalization alone does not automatically increase trust in or adoption of Sharia-compliant services. Heriyati et al. (2024) found a non-adoption phenomenon among some Indonesian consumers, with consumer resistance being the primary reason for their reluctance to use digital Sharia-compliant banking services despite the significant market potential. These findings suggest that psychological factors and perceptions of Sharia-compliant values in digital innovation remain key to building sustainable trust.

These findings align with the study by Alqahtani and Mayes (2018), which showed no significant differences in the stability and performance of Islamic banks compared to conventional banks during the crisis in GCC countries. These results indicate that the benefits of Sharia compliance are contextual and do not necessarily directly increase public trust without adequate governance and technological innovation.

In line with the importance of governance, transparency in Sharia compliance has been shown to strengthen the legitimacy and public trust in Islamic financial institutions (Siddique et al., 2023). Innovation aligned with Islamic values and strong governance can enhance the competitiveness and sustainability of institutions (Ahmed et al., 2021). Therefore, the success of Islamic banking digitalization ultimately depends on the synergy between technological efficiency and the integrity of Sharia values. Fintech innovation aligned with Sharia compliance is key to strengthening public trust and ensuring the sustainability of Islamic banking in the digital era.

2. | LITERATURE REVIEW

The development of digital technology is pushing Islamic banking to adapt without abandoning its foundational Islamic values. This review highlights three key interrelated aspects: digital transformation, building customer trust, and implementing Sharia compliance principles as an ethical foundation for innovation. These three principles serve as a crucial foundation for understanding the direction and challenges of today's digitalization of Islamic banking.

Digital Transformation in Islamic Banking

Digital transformation in the financial industry is a response to the need for efficiency, speed of service, and expanded public access to financial products. In the context of Islamic banking, digitalization not only focuses on technology adoption but also must reflect the ethical values and sharia principles that underpin its operations (Abdurrahman, 2024). Syaikh et al. (2023) stated that the digital revolution has shifted the banking operational model from a branch-based system to more efficient and flexible digital services. Similarly, Kitsios et al. (2021) found that digital transformation drives increased efficiency, security, and personalization of services, despite challenges with system integration and data protection.

In Islamic banking, innovations such as mobile banking, artificial intelligence, and blockchain have revolutionized the relationship between customers and financial institutions but require consistent implementation of Sharia compliance principles (Alshater et al., 2023). Riza and Wijayanti (2024) demonstrate that digitalization plays a crucial role in expanding financial inclusion and strengthening halal financing, emphasizing the importance of balancing technological efficiency with the values of fairness, transparency, and social responsibility. Alshater et al. (2022) also emphasize that Islamic fintech has the potential to expand access to Islamic finance and support sustainable development goals, although challenges such as literacy and regulation remain obstacles. Therefore, the digitalization of Islamic banking must be oriented towards value-based innovation that balances technological efficiency with the integrity of Islamic values (Jamshed & Uluyol, 2024; Ahmed et al., 2021).

Customer Trust as the Key to Success

Trust is a fundamental element in the relationship between financial institutions and customers. In the context of digital banking, trust encompasses customer perceptions of data security, system reliability, and operational compliance with Sharia principles (Gefen et al., 2021).

Gefen et al. (2021) explain that technology trust is formed through three main aspects: integrity, competence, and benevolence. In Islamic banks, these aspects are associated with institutional honesty, technological reliability, and commitment to Islamic values. Meanwhile, Siddique et al. (2023) found that transparency in Sharia compliance reporting plays a crucial role in strengthening the legitimacy of Islamic financial institutions in the public eye.

Alshater et al. (2023) also highlight that the use of technologies such as blockchain increases transaction transparency and minimizes non-Sharia-compliant practices, thereby strengthening customer security and trust. This trust then becomes a prerequisite for long-term loyalty and a positive reputation for digital Islamic banks (Ahmed et al., 2021).

Sharia Compliance Principles as the Foundation of Digital Ethics

Compliance with Sharia principles in digital banking is not merely a normative obligation but also a crucial element in building customer trust. Zulaikha & Faricha (2025) emphasized that customer trust is strongly influenced by consistent Sharia compliance and clear data protection, with data security and operational transparency being key determinants of customer intention to continue using Sharia digital services. Siddique et al. (2023) emphasized that successful digitalization can only be achieved if institutions are able to establish governance systems that ensure compliance with fatwas, Sharia audits, and operational transparency.

Research by Mulia et al. (2021) shows that the level of compliance with Sharia principles plays a significant role in influencing the acceptance of e-banking technology among Islamic bank customers. In the Technology Acceptance Model (TAM) used, Sharia compliance was shown to be a key variable strengthening perceptions of trust and willingness to use Sharia-based digital services. Thus, the implementation of Sharia principles not only strengthens the spiritual dimension but also serves as a strategic factor in increasing technology adoption in the Islamic banking sector.

Several studies also show that Sharia compliance can be a key differentiator (unique selling proposition) for digital Islamic banks compared to conventional financial institutions. This compliance enhances perceptions of the institution's reliability and morality, which in turn strengthens public trust (Jamshed & Uluyol, 2024).

The Urgency of Integrating Sharia Values

Although numerous studies have examined the relationship between digitalization and customer trust, there remains a gap in understanding how Sharia values are effectively integrated into the digitalization process. Most previous research has focused on technological aspects or user satisfaction, but little has examined how Islamic moral principles can shape the ethical framework within the digital ecosystem of Islamic banking (Ahmed et al., 2023; Zulaikha & Faricha, 2025).

This study attempts to fill this gap by emphasizing the importance of balancing technological innovation and ethical integrity in strengthening trust and sustainability in digital Islamic banking. Islamic values such as justice, trustworthiness, and social responsibility serve not only as moral guidelines but also as social capital that strengthens long-term relationships between institutions and customers (Maulina et al., 2023).

3. | RESEARCH METHOD

This study uses a narrative review approach to examine various previous studies related to digital transformation, customer trust, and the application of Sharia compliance principles in Islamic banking practices. This method was chosen to gain a comprehensive understanding of the direction of research developments and conceptual dynamics in the digitalization of Islamic financial institutions, particularly in efforts to maintain a balance between technological innovation and the integrity of Sharia values.

Literature was selected purposively based on relevance to the research topic, methodological clarity, and theoretical contributions to the discussion of trust and Sharia compliance in a digital context. The obtained studies were then analyzed thematically to explore the relationships between key variables; namely how digital transformation affects customer trust and how Sharia compliance principles determine the credibility and legitimacy of digital Islamic banks.

This method allows researchers to synthesize various empirical and conceptual findings from previous research, identify patterns of similarities and differences between studies, and identify remaining research gaps. The narrative review approach also helps build a deeper theoretical understanding of the role of Islamic values as ethical guidelines in the digital transformation of Islamic banking, while also providing a foundation for further research in technology-based Islamic finance.

4. | RESULTS

Digital transformation in Islamic banking demonstrates a strong link between technology utilization, customer trust, and the implementation of Sharia compliance principles. Alshater et al. (2023) emphasized that the integration of technologies such as mobile banking and blockchain not only improves operational efficiency but also strengthens customers' sense of security by increasing transaction transparency and security. These findings indicate that digital innovation is a key driver in building positive perceptions of modern Islamic financial services.

In understanding how user trust is formed, Gefen et al.'s (2021) technology trust framework serves as an important reference. The three main dimensions they identify; integrity, competence, and benevolence; represent fundamental elements that digital Islamic financial institutions must fulfill. In practice, these dimensions are reflected in the institution's integrity in adhering to Islamic values, the reliability of its digital system for conducting transactions, and its moral commitment to providing safe and sharia-compliant services. This demonstrates that trust depends not only on technological sophistication but also on underlying ethical values.

Results from various other studies show that Sharia compliance plays a central role in strengthening the perceived reliability of digital Islamic banking services. Jamshed & Uluyol (2024) found that the use of blockchain helps ensure transactions are free from riba (usury), gharar (gharar), and maysir (gambling), thus maintaining Sharia integrity throughout the process. This view is reinforced by Siddique et al. (2023), who showed that transparency in Sharia audit reporting significantly increases an institution's credibility in the eyes of customers. Open information regarding compliance processes provides users with greater confidence that the services they receive are conducted in accordance with Islamic principles.

Further analysis indicates that the success of Islamic banking digitalization is largely determined by the institution's ability to align technological innovation with Sharia governance. Zulaikha & Faricha (2025) emphasized that effective integration between technology and Sharia governance can enhance reputation and strengthen long-term trust. Similarly, Amin & Isa (2023) emphasized the importance of value-based innovation as a key differentiator that adds value to Islamic banking digitalization. Overall, the literature demonstrates that the success of digitalization depends not only on technical aspects but also on the institution's ability to maintain consistent Sharia values as the primary foundation for building trust.

5. | DISCUSSION

The study's findings indicate that the digitalization of Islamic banking serves not only as a means of operational efficiency but also as a strategic instrument for strengthening customer trust through Islamic value-based innovation. The application of technologies such as blockchain, artificial intelligence, and digital onboarding accelerates services while increasing transparency and data security, positively impacting the perceived reliability of Islamic financial institutions (Jamshed & Uluyol, 2024; Gefen et al., 2021). However, the effectiveness of this digital transformation depends heavily on the institution's ability to ensure that each innovation remains aligned with the principles of fairness, honesty, and social responsibility as stipulated in Sharia values (Zulaikha and Faricha, 2025).

Various literature also demonstrates a synergistic relationship between technological capability and Sharia compliance. Innovations designed with Islamic values in mind have been shown to increase customer engagement and brand trust, which form the basis for long-term loyalty (Alshater et al., 2023; Amin & Isa, 2023). Therefore, the success of digitalization is not simply a matter of technological sophistication, but rather the extent to which the technology can strengthen the moral and spiritual legitimacy of Islamic financial institutions in the public eye.

Furthermore, a research gap has been identified in the context of implementing Sharia digitalization, particularly in the governance and ethical design aspects. Most research still focuses on technology adoption and user behavior, while the dimensions of Sharia governance and digital audits have not received much in-depth study. Yet, the clarity of Sharia audit mechanisms in digital platforms significantly determines the level of public trust in the validity of Islamic financial products. Therefore, further research is needed that explores the integration of financial technology with digital-based Sharia supervisory systems to create a sustainable and ethical Islamic banking model.

Conceptually, the results of this review reinforce the view that public trust in Islamic banks is multidimensional, influenced by the interaction between technological reliability, value adherence, and governance transparency. An approach that places Islamic values as the ethical foundation of digitalization is believed to maintain a balance between innovation and spirituality and strengthen the competitiveness of Islamic banks in an increasingly competitive digital economy.

6. | CONCLUSION

Digital transformation in Islamic banking is no longer simply a demand for efficiency, but also a reflection of how Islamic values can adapt to the flow of technological innovation.

Digitalization processes undertaken without considering Sharia compliance principles have the potential to undermine public trust, while integrating the values of justice, trustworthiness, and transparency has been proven to strengthen institutional legitimacy. Literature findings confirm that the success of digitalization lies in the institution's ability to maintain a balance between system modernization and the moral integrity that is the hallmark of Islamic banking.

In practice, customer trust is built not only through secure and fast technology, but also through the institution's commitment to upholding authentic Sharia values across all service lines. Innovations such as blockchain and artificial intelligence offer significant opportunities for increased transparency and efficiency, but still require governance based on Islamic ethics to avoid losing its spiritual direction. Successful Islamic banks are those that are able to position technology as a complement, not a substitute, for the moral principles that underlie the Islamic financial system.

From a policy and research perspective, the results of this review provide opportunities for strengthening digital Sharia governance as a strategic framework for oversight and innovation. Developing technology guidelines consistent with the maqāṣid al-sharī'ah (the principles of Islamic law) is a key agenda for regulators, while increasing digital Sharia literacy among the public can expand values-based financial inclusion. Limitations of this study lie in its narrative approach, which fails to empirically test the relationships between variables, and the predominance of the Asian context in the analyzed literature. Further research is recommended using systematic reviews or cross-country comparative case studies to broaden global understanding of the synergy between digitalization and Islamic values.

Overall, the integration of digital technology and Sharia principles is not two opposing poles, but rather a dual foundation that can lead Islamic banking towards a more inclusive, transparent, and sustainable system in the new economic era.

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The authors declare that there is no conflict of interest.

Ethical Approval and Originality Statement

Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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