

# Navigating the digital frontier: Strategies for effective risk management in Islamic Banking

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## ABSTRACT

Tujuan dari penelitian ini adalah untuk menganalisis pendekatan dan strategi yang efektif dalam manajemen risiko digital di perbankan syariah, dengan fokus pada identifikasi risiko, implementasi kebijakan dan prosedur, pemanfaatan teknologi, pendidikan dan pelatihan karyawan, audit dan pemantauan, kerjasama dengan pihak eksternal, serta komitmen pemimpin. Metode penelitian ini melibatkan tinjauan literatur dari sumber-sumber akademis dan industri terkait manajemen risiko digital di perbankan syariah. Hasil penelitian

menunjukkan bahwa pendekatan holistik yang mencakup pemahaman mendalam tentang risiko digital, implementasi kebijakan dan prosedur yang efektif, pemanfaatan teknologi yang canggih, pendidikan dan pelatihan karyawan, audit dan pemantauan yang terus-menerus, kerjasama dengan pihak eksternal, serta komitmen yang kuat dari pemimpin, merupakan kunci dalam mengelola risiko digital di perbankan syariah. Saran praktis termasuk peningkatan investasi dalam teknologi keamanan dan penguatan kerjasama dengan pihak eksternal untuk memperkuat pertahanan terhadap risiko digital.

## ABSTRACT

The aim of this research is to analyze effective approaches and strategies in digital risk management in Islamic banking, with a focus on risk identification, implementation of policies and procedures, use of technology, employee education and training, audit and monitoring, collaboration with external parties, and commitment. leader. This research method involves a literature review from academic and industry sources related to digital risk management in Islamic banking. The research results show that a holistic approach that includes a deep understanding of digital risks, effective implementation of policies and procedures, use of advanced technology, employee education and training, continuous auditing and monitoring, collaboration with external parties, and strong commitment from leaders, is key in managing digital risk in Islamic banking. Practical suggestions include increasing investment in security technology and strengthening cooperation with external parties to strengthen defenses against digital risks.

## Introduction



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Risk Management in Islamic or sharia banking in the era of digital transformation are something crucial thing in guard stability and sustainability industry based finance sharia principles (Wafie and Segaf, 2023). Islamic banking business in Indonesia itself , often bring related risks with activities , The risks inherent in Islamic banks are: potential events and have impact negative to capital and income of Islamic financial institutions (Ihyak et al., 2023). With Thus , in the era of globalization and development Rapid technology , sharia banking is faced with various challenges and opportunities new To use minimize necessary risks faced with management strategy the right risk (Zaini et al., 2022). In view general , digital transformation has change landscape sharia banking significant , introduce risks new ones who need it a structured and effective approach in its management (Ananda et al., 2023).

Management risk is something activity mainly carried out by financial institutions with involves processes of identification , measurement , monitoring and control risk (Rif et al., 2023). One of aspect important in implement management risks in sharia banking in the era of digital transformation are deep understanding about associated risks with adoption technology new . Sharia banking must capable identify risks like data security , risk operational , risk compliance , and risk possible reputation appear along with change technology . In development holistic understanding about these risks become base important in formulation management policies and strategies effective risk (Shabri, 2022).

Development appropriate policies and procedures with sharia principles also become very important thing in management risks in sharia banking . These policies must covers aspects like security information , management risks , and procedures consistent operations with sharia (Susanti, 2024)values . In this case , understanding deep about sharia principles and the involvement of experts in field the become key For develop appropriate policies with religious demands and sharia (Masrurroh et al., 2024)principles .

Utilization technology be one key in manage emerging risks in the era of digital transformation . Technologies like intelligence artificial intelligence (AI), data analysis , and blockchain technology can give various benefit in detect , analyze and manage risk in a way more effective . For example , implementation system detection anomaly AI - based can help Islamic banking in detect suspicious activity or potential violate sharia (Zulfahmi et al., 2023)principles .

Apart from that, education and training is aspect important in prepare employee Islamic banking in face associated risks with digital transformation . Training related management digital risk , security information , and sharia principles can help increase awareness and understanding employee in face risks new one has appeared along with adoption technology new (Ardianto et al., 2024).

Auditing and monitoring in a way periodically also becomes very important thing in ensure effectiveness from implementation management risks in sharia banking in the era of digital transformation . Internal and external audits carried out in a way regular can help identify weaknesses in system management existing risks and provide recommendation For repair (Hidayati, 2022).

Cooperation with party external like institution supervisors , independent auditors , and consultants There are also risks give benefit in implement management effective risk . Involvement parties This external can give view independent about effectiveness system management existing risks and provide valuable input For repair (Aripin et al., 2022).

Apart from that, innovation Sharia- based also becomes important thing in manage associated risks with digital transformation . Sharia banking is necessary develop innovation appropriate technology with sharia principles for reduce associated risks with non- compliance with sharia. For example , the development of fintech platforms that follow sharia principles can help reduce associated risks with use technology in activity banking (Sofyan & Hasibuan, 2024).

Leadership commitment is important to institution performance (Segaf, 2012). Commitment leader Islamic banking is also becoming factor important in success implementation management risks in the era of digital transformation. Leader Sharia banking must own strong commitment to implementation management digital risks and ensuring that all parties in the company prioritize management risk in every decisions and activities (Parapat et al., 2024).

Implementation management risks in sharia banking in the era of digital transformation require a structured and comprehensive approach that involves deep understanding about associated risks with digital transformation , development appropriate policies and procedures with sharia principles , utilization technology , education and training , auditing and monitoring , cooperation with party external , innovation sharia- based , and commitment leader Syariah banking . With take these steps , Islamic banking can manage associated risks with digital transformation more effective and caring stability as well as continuity industry sharia banking in the future come (Restika & Sonita, 2023).

In implementation management There are risks to Islamic banking in the era of digital transformation a number necessary problems overcome . One of them is lack of deep understanding about associated risks with adoption technology new . Islamic banking often faces challenge in identify and manage risks like data security , risk operations , and risks possible compliance appear along with change technology . Apart from that, there are internal gaps development appropriate policies and procedures with sharia principles , as well lack of utilization technology For manage risk in a way effective .

The main purpose from this research is For identify effective strategies in implement management risks in sharia banking in the era of digital transformation . With understand existing problems and analyzing internal gaps study previously , this research aims For develop concrete and feasible recommendations implemented For increase management risks in sharia banking .

Deep gap study previously especially lies in the lack focus on sharia banking and management risk in the era of digital transformation . Lots of more research focuses on banking conventional or aspects certain from management risk , temporary focused research in a way especially in management the risks in sharia banking in the

digital era are still limited . Therefore , this research will fill in gap the with give more understanding comprehensive about effective strategies in manage associated risks with deep digital transformation Syariah banking .

Urgency from This research is very important remember importance management risk in guard stability and sustainability Islamic banking in the era of digital transformation . Change fast technology and complexity associated risks with digital transformation demands exists a structured and comprehensive approach in management risk . With identify effective strategies in manage these risks , Islamic banking can increase security , reliability and sustainability business they're in the middle changes that occur .

## **Discussion**

Implementation management risks in sharia banking in the era of digital transformation can be shared become a number of covering section understanding digital risk , development policies and procedures , utilization technology , education and training , auditing and monitoring , cooperation with party external , innovation sharia- based , and commitment leader . Every part will discuss in a way detailed about possible steps taken For implement management risk with effective in Islamic banking in the digital era.

### **Understanding Digital Risk**

Understanding digital risks constitute key in manage challenges and potential threats that arise along with adoption technology in various aspect life , including in the sector Syariah banking (Wafie & Segaf, 2023). Digital risks include various possibility loss or disturbances that occur consequence exploitation technology information and communication (Abubakar & Handayani, 2022). In Islamic banking , deep understanding about digital risks become important Because activity banking the more depending on infrastructure complex technology .

One of risk main in the digital realm is risk data security . Sensitive customer data , such as information identity , details account , and history transactions , become the main target for hackers and cyber criminals . Leakage or Data theft can occur result loss financial , damage reputation , and violations serious privacy for customers and institutions banking . Therefore , Islamic banking is necessary take steps proactive in protect customer data they through implementation policy strict security and investment in technology advanced security.

Apart from the risks data security , risk operations also become attention main in digital. Increasing dependency big on systems and infrastructure technology cause prone to to disturbance system , failure device software , and errors man . As example , interference a system that doesn't expected can result decline service banking electronics , interference transactions , and inconvenience for customers . Therefore , Islamic banking is necessary own plan recovery solid disaster and carry out trials regular For ensure availability and reliability system they .

Apart from the risks data and operational security , risks compliance is also necessary noticed in digital. Related regulations with data protection , security information , and privacy customer the more complex and changing . Disobedient to regulations can result penalty law , fine financial , and damage reputation for Syariah banking . Therefore , Islamic banking is necessary ensure that they obey all relevant and safeguarding regulations obedience to standard ethics and sharia principles in every aspect activity they . In facing the these digital risks , sharia banking is necessary develop holistic and in -depth understanding about sources risk , potential impacts , and effective mitigation strategies . This involves enhancement awareness and understanding in all level organization , investment in technology advanced security , development appropriate policies and procedures , as well training employee For increase digital literacy and compliance to principles management risk . With an integrated and proactive approach to digital risks , Islamic banking can manage risk with more effective and ensuring continuity operational they are in an increasingly digital era develop .

**Table 1 . Problem Management Sharia Bank Risks in Indonesia**

Leading Sharia Bank	Problem Management Digital Risk	Date Incident	Description
Sharia Bank A	Malware Attacks on Systems Banking Electronic	November 2023	In November 2023, Bank Syariah A experienced infecting malware attacks system banking electronic they . Attack This bother service banking electronic , so customers No can access account they or do transaction by online. An internal investigation found that the malware has spread via a successful phishing email hack a number of account employee . Attack This cause inconvenience for customers and losses financial for banks because decreased transaction volume . Sharia Bank A immediately respond with disable their online services while , cleaning system from malware, and strengthen policy data security as well give training about phishing to employee . Steps This taken For prevent attack similar in the future and recover trust customers to security system banking electronic they .
Sharia Bank B	Personal Data Leaks Customer through Mobile Banking Application	June 2022	In June 2022, Bank Syariah B experienced personal data leak customers through vulnerabilities in their mobile banking applications . A report from researcher security cyber find that the bank 's mobile banking application prone to to possible attacks hacker For access information personal customers , such as name , address , and number account . This data leak give rise to worries Serious about privacy customers and threaten bank reputation . Sharia Bank B immediately respond

			with renew their mobile banking application and implement layer security additional , incl authentication double and data encryption . They also deliver announcement to affected customers and requests Sorry on incident these , as well offer service monitoring identity For protect customers from potency misuse of data. Responsive action emergency This taken For overcome data leak and recover trust customers to their mobile banking service .
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Source : (Fajri & Violita, 2023)

Case study above describes two events real where the leading sharia banks in Indonesia experienced problem Serious related management digital risk . Through Quick response and action responsive proper emergency , both banks try For minimize impact the negative , fix weakness in system them , and recover trust customers to security service banking they .

### **Development Policies and Procedures**

Development appropriate policies and procedures is step crucial in manage digital risks in Islamic banking . Following is view about how can banks develop Effective policies and procedures :

#### **Development Policy**

1. Initial step is do analysis comprehensive to associated risks with digital transformation , such as risk data security , operations , and compliance . Based on this analysis , the bank can identify vulnerable areas and prioritize necessary action .
2. Developed policies must aligned with sharia principles and applicable regulations . This involves development ensuring policies obedience to sharia principles in all aspect operations and technology used .
3. Policy security information must define standards necessary security For protect customer data and systems banking from cyber threats . This includes steps like data encryption , authentication double , and monitoring active security .
4. Policy management risk must establish processes for identify , evaluate , and manage associated risks with digital transformation. This includes determination tolerance risk , sharing tasks , and mechanisms clear reporting.

#### **Development Procedure**

1. Procedure operational must developed For implement policies that have been set . This includes steps technical and administrative requirements For ensure compliance and consistency in operate activity operational .
2. Procedure training must arranged For give clear understanding to employee about applicable policies , procedures operations , and practices necessary security . This training is a must covers aspects like phishing detection , sensitive data handling , and action responsive emergency in face incident security .

3. Procedure evaluation and review in a way periodically must done For ensure that policies and procedures still relevant and effective along with change technology and environment business . This includes internal and external audits , as well regular review by management level on .
4. Procedure recovery disaster must arranged For overcome incident security or disturbance system that can happen . This includes steps data recovery , restoration systems , and communications emergency with stakeholders.

### **Utilization Technology**

Utilization technology own role crucial in manage digital risks in sharia banking in the era of digital transformation . One of aspect main from utilization technology is use solution intelligence artificial intelligence (AI), data analysis , and blockchain technology . AI can used For detect pattern suspicious behavior in transaction finance , help identify potency fraud or activity illegal other in real time (Qothrunnada et al., 2023). Sophisticated data analysis allows banks to analyze large volume of data with hurry up and get it valuable insight about trend risks and emerging patterns . Blockchain technology , with features like high security and record footsteps transparent , yes used For strengthen security and reliability system Islamic banking , especially in matter management transactions and validation ownership assets .

Apart from that, technology also plays a role important in integrate system management digital risk to in business processes daily . Device solutions soft special can used For automate related tasks with identification and monitoring risk , speeding up the retrieval process decisions , and improve efficiency operational in a way whole . For example , system management risk integrated can give announcement direct to officer risk about potency threat or violation policy , allows they For respond with fast and effective .

Not only that, utilization technology also allows banks to increase transparency and accountability in manage digital risk . With utilise technology like a blockchain platform for record and monitor activity transaction in real-time, banks can strengthen data integrity and ensure that information provided in accordance with sharia principles . Apart from that, technology also allows banks to give report more risk detailed and more analysis deep to party supervisors and regulators, strengthen communication and cooperation between banks and authorities supervisor .

By overall , utilization technology in management the risks digital brings Lots benefit for Islamic banking , incl enhancement safety , efficiency operations , and compliance to sharia principles . With adopt solution the right technology and integrating it to in management strategy risk them , Islamic banks can increase resilience they to digital risks and ensuring continuity business they are in the era of digital transformation .

### **Education and Training**

Education and training play role crucial in prepare personnel Islamic banking for face complex digital challenges and risks in this era of transformation . Effective education and training programs No only give knowledge about digital and technological risks related , but also developing Skills practically necessary For manage risk the with Good.

Following is a number of aspect important in education and training related management digital risks in sharia banking.

1. Education programs must give deep understanding about various type possible digital risks faced by sharia banking , incl risk data security , operations , and compliance . It's involving learning about sources risk , potential impacts , and effective mitigation strategies .
2. Personnel banking need given comprehensive knowledge about technology information used in operation Islamic banking , as well practices security necessary information For protect customer data and systems banking from cyber threats .
3. Remember importance deep data analysis identify trend risks and patterns suspicious behavior , personnel banking need trained in Skills Sophisticated data analysis . This includes use tool data analysis and techniques statistics For dig valuable insight from the large volume of data available .
4. Training program must covers deep awareness about techniques common cyber attacks , such as phishing and malware, as well steps possible prevention taken For reduce risk attack the . This includes training direct about method recognize suspicious phishing emails or avoid link dangerous .
5. Apart from knowledge theoretical , personnel banking is also necessary trained through simulation and practice practically simulating scenario possible digital risks happen . This can help they For hone Skills responsive emergency , put it into practice procedure recovery disaster , and improve readiness in face situation critical .
6. Education and training programs are also a must covers deep understanding about relevant sharia principles with management digital risks , as well importance ensure obedience to sharia regulations in all aspect operational Syariah banking .

### **Audit and Monitoring**

Auditing and monitoring play role crucial in management digital risks in sharia banking , with thorough internal audits regular evaluate compliance and effectiveness policy as well as established procedures , meanwhile monitoring system in a way continously help detect and respond activity suspicious that can be indicated attack or violation security . External audit give evaluation independent about management digital risks , while penetration testing evaluate security system with try penetrate existing vulnerabilities . Monitoring performance track performance systems and services , temporary audit and monitoring results reported to management level on For follow the right next step . With carry out audits and monitoring in a way comprehensive , sharia banking can identify and manage digital risk with more effective , minimize potency loss , and ensuring security as well as obedience in operation they are in an increasingly digital era develop.

### **Cooperation with Party External**

Cooperation with party external is an important strategy in management digital risks in Islamic banking , which involve collaboration with provider service cyber security ,



consultant risk technology , and institutions supervisor industry . Through this collaboration , the bank can obtain access to expertise and resources Power addition For identify , analyze , and overcome digital risk with more effective . Provider service cyber security can help in detect and resolve cyber threats , temporary consultant risk technology can give outlook about practice best in management digital risk . Cooperation with institution supervisor industry also important For ensure obedience to applicable regulations and obtain more understanding Good about trend risk industry . With utilise this collaboration , sharia banking can strengthen defense they to digital risks and improve security as well as reliability operational they are in an increasingly digital era develop .

### **Innovation Sharia Based**

Innovation sharia- based to be key in face challenge and exploit opportunities in the era of digital transformation in sharia banking . With combine sharia principles with technology sophisticated , Islamic banks can develop products and services innovative ones that are not only fulfil need customers in a way financial , but also appropriate with values Islamic ethics and morals. For example , the development of a digital banking platform that makes it possible customers For do transaction without usury or gharar , as well provide features like donation automatic for zakat and infaq . Plus, technology like a blockchain can used For increase transparency and accountability in network distribution of zakat funds, meanwhile intelligence artificial can used For provide service advice appropriate finances with sharia principles . Through innovation sharia- based , sharia banking can expand access to service appropriate finances with their religious beliefs , while still relevant and powerful competitive in an increasingly digital market .

### **Commitment Leader**

Commitment leaders are very important in push implementation effective management digital risks in Islamic banking . Leaders who own strong commitment to security and compliance will help create culture prioritizing organizations management digital risk . They must become good example in follow policy security and procedures in place set , as well ensure that all member team they understand and comply standards the . Apart from that, leaders must also allocate source adequate power For investment in technology security and training employees , as well ensure that system rewards and incentives based on achieving security and compliance targets . With strong commitment from leader , sharia banking can strengthen defense they to digital risks and ensuring continuity operational they are in an era of rapid digital transformation .

### **Conclusions and Recommendations**

Digital risk Management in sharia banking in the era of digital transformation require approach holistic that includes deep understanding about digital risk, implementation effective policies and procedures, utilization advanced technology, continuous education and training for employees, continuous auditing and monitoring, cooperation with party external, as well strong commitment from leader. With adopt

this approach, Islamic banking can manage digital risk with more OK, minimize potency loss, and ensuring security as well as obedience in operation they're in the middle dynamics change technology and finance continues develop.

1. Enhancement Investment in Technology Security : Islamic banking is necessary increase investment in technology security For face increasing cyber threats complex . This includes implementation solution intelligence artificial intelligence (AI) and advanced data analysis For detect and prevent attacks , as well use blockchain technology for strengthen data and transaction security .
2. Strengthening Collaboration with Party External : Close cooperation with provider service cyber security , consultant risk technology , and institutions supervisor industry can help Islamic banking access source Power additions and insights expert in manage digital risk . This collaboration is also possible exchange information about trend risks and practices best in management digital risk .

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