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Analysis of International Claims in the Banking Sector: Implications for Islamic Finance in the Digital Age

Analisis Klaim Internasional pada Sektor Perbankan: Implikasi Keuangan Syariah di Era Digital

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Abstract : *Global digital transformation has changed the dynamics of international claims in the banking sector, presenting unique challenges for Islamic finance in ensuring compliance with Shariah principles. This study aims to understand how digitalization affects international claims in the banking sector and its implications for Islamic finance. The method used is secondary data analysis from banks' annual reports, international statistical data, and related scientific publications, with an observation period from the second quarter to the fourth quarter of 2023. The results showed that international claims in all sectors were relatively stable, with significant increases in the non-bank sector and the private non-financial sector. Claims on the banking sector experienced a slight decline before stabilizing again. The implications of the findings indicate the need for Islamic banks to strengthen Shariah compliance, diversify international portfolios, and develop new services to maintain stability and growth in the digital era.*

Keywords : *Digital transformation, international claims, Islamic banking, Shariah compliance, digital finance*

Abstrak : Transformasi digital global telah mengubah dinamika klaim internasional di sektor perbankan, menghadirkan tantangan unik bagi keuangan syariah dalam memastikan kepatuhan terhadap prinsip-prinsip syariah. Penelitian ini bertujuan untuk memahami bagaimana digitalisasi mempengaruhi klaim internasional pada sektor perbankan dan implikasinya bagi keuangan syariah. Metode yang digunakan adalah analisis data sekunder dari laporan tahunan bank, data statistik internasional, dan publikasi ilmiah terkait, dengan periode pengamatan dari kuartal kedua hingga kuartal keempat tahun 2023. Hasil penelitian menunjukkan bahwa klaim internasional pada semua sektor relatif stabil, dengan peningkatan signifikan di sektor non-bank dan sektor non-finansial swasta. Klaim pada sektor perbankan mengalami sedikit penurunan sebelum stabil kembali. Implikasi dari temuan ini mengindikasikan perlunya bank syariah memperkuat kepatuhan syariah, mendiversifikasi portofolio internasional, dan mengembangkan layanan baru untuk menjaga stabilitas dan pertumbuhan di era digital.

Kata Kunci: Transformasi digital, klaim internasional, perbankan syariah, kepatuhan syariah, keuangan digital

I. INTRODUCTION

The digital transformation sweeping across various sectors of the global economy has brought significant impacts on the banking industry. These changes not only alter the way banks operate but also affect the dynamics of international claims on the banking sector [1][2][3]. In the context of Islamic economics, this issue becomes even more relevant as Islamic banks have to face unique challenges related to the application of sharia principles in the era of digitalization [4]. The academic anxiety that drives this research is the urgent need to understand how international claims on the banking sector are changing with the development of digital technology, and what the implications are for Islamic finance. In an era where data and information are becoming highly valuable assets, understanding these dynamics will provide important insights for the development of effective strategies for Islamic banks.

The rapid advancement of digital technology has significantly affected the financial sector, especially in the field of Islamic finance. Studies by various researchers have highlighted the transformative impact of digitalization on Islamic financial institutions, such as Islamic insurance, peer to peer Islamic lending, and Islamic digital banks [5][6][7]. While digital transformation offers opportunities for operational efficiency and financial inclusiveness in Islamic banking, it also presents challenges in ensuring strict adherence to sharia principles [1]. Research by Ahmed and Abdulla (2020) underscores the importance of exploring the implications of digitalization on international claim patterns within the Islamic banking sector, emphasizing the need to bridge the existing research gap to gain a comprehensive understanding of the evolving landscape of Islamic finance in the digital age[8]. This suggests a significant research gap that needs to be filled to comprehensively understand the impact of digital transformation on international claims in the Islamic banking sector.

Research by Salih Fathullah Aldofani and Salem Fathullah Aldofani [3] highlights the importance of Islamic auditing in mitigating risks faced by Islamic banks. In addition, Robert R. Bianchi's study emphasizes the evolving landscape of Islamic banking, where compliance with global financial standards is essential for legitimacy and growth. Mizaj Iskandar Usman's study [9] underscores the need for Islamic Financial Institutions (IFIs) to adhere strictly to Islamic principles to ensure compliance and avoid ambiguity. Furthermore, Frity Sundariani's work explains the basic principles of Islamic banking, emphasizing the prohibition of riba. Lastly, Issam Tlemsani's study [10] investigates the evaluation of the Islamic Interbank Benchmark Rate (IIBR) and its relationship with conventional benchmark interest rates, explaining the importance of the IIBR as a Shariah-compliant financial tool. Considering these insights collectively, it becomes clear that changing international claims in the banking sector can greatly impact the stability and growth of Islamic banks in the digital age, necessitating a deeper examination of these dynamics to ensure the resilience and prosperity of Islamic finance.

The scholarly novelty of this study lies in its specific focus on international claims and its implications for Islamic finance in the context of digitalization. While many studies have addressed digitalization in banking in general, those that specifically examine how these changes affect international claims on Islamic banks are still very limited. As such, this research not only makes a theoretical contribution by adding to the existing literature, but also offers practical insights for Islamic banking industry players in developing adaptive and innovative strategies.

The research problem raised in this study is how changes in international claims on the banking sector affect Islamic finance in the digital era. This research seeks to answer the main question: "How does digitalization affect international claims on the banking sector and what are the implications for Islamic finance?" By focusing on these aspects, this research will provide a deeper understanding of the dynamics at play and offer strategic recommendations to deal with the challenges.

The purpose of this study is to examine changes in international claims on the banking sector in the digital era and evaluate their impact on Islamic finance. This research aims to identify the key factors that influence changes in international claims and develop an analytical model that can be used to understand the implications of these changes. Thus, the results of this study are expected to make a significant contribution to the development of policies and strategies in the Islamic banking industry.

II. RESEARCH METHODS

The method used is secondary data analysis, which involves collecting and analyzing data from various relevant sources. The data used was obtained from banks' annual reports, international statistical data, and related scholarly publications. The main data sources include reports from the Bank for

International Settlements (BIS) that provide detailed international claims data. Data was collected for the period 2023-Q2 to 2023-Q4 to analyze the trends and patterns of international claims.

Data were analyzed using descriptive and comparative approaches. The variables analyzed include international claims on all sectors, claims on the banking sector, claims on the non-banking sector, and total claims on the private non-financial sector. Annual changes were calculated to provide insight into the dynamics at play. Descriptive analysis is used to describe the characteristics of the data, while comparative analysis is used to compare changes in international claims across sectors. The results of the data analysis are interpreted by relating them to previous literature and relevant studies that have been conducted. Findings from the data analysis are compared with findings from previous studies to identify similarities, differences, and new contributions made by this research.

A literature review was conducted to identify current literature relevant to the research topic. Previous research discussing digitalization in banking, the impact of digitalization on Islamic banks, and international claims in the banking sector were reviewed in depth to provide context and justification for the results of data analysis. The use of secondary data in this study was deemed appropriate given the availability of comprehensive and relevant data from reliable sources from the BIS. The descriptive and comparative analysis approach allows the researcher to describe the trends and compare the changes in international claims across sectors.

III. RESULTS AND DISCUSSION

A. Research Results

From the data that has been obtained from the BIS, Table 1 presents the results of the analysis of international claims on the banking sector and their impact on Islamic finance in the digital era. The following is a table summarized based on the research data.

Table 1: Analysis of International Claims on Banking Sector

Claim Type	2023 Q2 (%)	2023 Q3(%)	2023 Q4(%)	Annual Change (%) (2023-Q2)	Annual Change (%) (2023-Q3)	Annual Change (%) (2023-Q4)
International claims in all sectors	41.4	41.3	41.3	2	0.9	3.8
In the banking sector	19.7	19.5	19.5	0.6	-1.8	1.6
In the non-bank sector	19.9	19.9	20.1	2.5	3.4	5.6
Total claims on private non-financial sector	110.7	110.8	110.7	6.9	6.1	6

The results of the data analysis shown in Table 1 indicate that the percentage of international claims in all sectors remained relatively stable throughout the second quarter to the fourth quarter of 2023, with a significant annual increase of 3.8% in the fourth quarter. Claims on the banking sector experienced a slight decline in the third quarter but stabilized again in the fourth quarter, with annualized changes showing fluctuations. In contrast, claims on the non-bank sector showed a consistent increase throughout the year, with the largest annual increase of 5.6% in the fourth quarter. Total claims on the private non-financial sector remained stable with little fluctuation, and the highest annual increase was seen in the second quarter at 6.9%.

The implications for Islamic finance of this finding are significant. The increase in international claims in the non-bank sector may provide opportunities for Islamic banks to improve operational efficiency through international portfolio diversification. The stability of claims in the banking sector suggests that Islamic banks need to continue to strengthen sharia compliance mechanisms to maintain such stability in the digital era. In addition, the increase in claims on the private non-financial sector indicates a growth opportunity that Islamic banks can capitalize on by expanding services to these sectors. Given the annual fluctuations, Islamic banks need to develop adaptive strategies that are responsive to changes in international claims and global market dynamics to ensure stability and sustainable growth.

B. Discussion

This study examines changes in international claims on the banking sector in the digital era and evaluates their impact on Islamic finance. Findings from the data analysis show that international claims on all sectors have remained relatively stable, with a slight decrease in the banking sector and an increase in the non-bank sector. The findings provide important insights into how Islamic banks need to adapt and explore new opportunities in the digital era.

The stability of international claims across all sectors in the range of 41.3% to 41.4% of GDP over the period Q2 to Q4 2023 reflects the sustainability of international interactions within the banking sector as a whole. This suggests that despite major changes in the global economic environment, the banking sector is still able to maintain its position. This is in line with research findings that confirm that digitalization improves the operational efficiency of Islamic banks [4]. In addition, there is research that emphasizes the importance of digital transformation in the Islamic finance sector, highlighting how it can lead to improved operational efficiency and financial inclusiveness [1]. Furthermore, how the digitalization of Islamic banks can drive national economic recovery, especially during crises such as the COVID-19 pandemic, by offering digital payment systems and other services that improve financial inclusion and well-being [11] [12]. While the stability of international claims demonstrates the sector's resilience to economic fluctuations, the integration of digital technology plays an important role in improving efficiency and ensuring sustainable performance in Islamic banking operations.

The decline in claims in the banking sector from 19.7% in Q2 to 19.5% in Q4 indicates the challenges faced by the sector in adjusting to technological and global economic changes. This decline can be interpreted as a need for Islamic banks to adopt more effective digital strategies. Research conducted in Pakistan's banking industry from 2006 to 2020 showed that digitization positively impacted banking efficiency, with state-controlled banks outperforming private sector counterparts, demonstrating the disruptive influence of digitization on banking system transformation [13]. Additionally, a study on Islamic banking in Bangladesh from 2009 to 2021 revealed that the quality of lending decisions significantly affected the financial performance of Islamic-based banks, emphasizing the importance of managing factors such as classified loans and capital adequacy ratios to avoid negative implications on profitability and capital adequacy[14]. These findings collectively underscore the dual nature of challenges and opportunities that digitalization presents to Islamic banks in navigating the evolving financial landscape.

The increase in claims on the non-bank sector from 19.9% in Q2 to 20.1% in Q4 reflects the diversification of international claim sources. This finding is important as it suggests that the non-bank financial sector, including Islamic fintech and other Islamic investment products, could be a significant growth area. Recent literature, particularly research on Islamic Fintech, emphasizes the significant potential of Islamic fintech in supporting financial inclusion, especially in countries with substantial Muslim populations [15]. A study on Islamic peer to peer lending in Indonesia also highlighted the positive impact of Islamic fintech on improving financial inclusiveness for micro, small, and medium enterprises (MSMEs) [16]. In addition, the study suggests that the increase in non-bank sector claims may serve as an indicator of the increasing presence of Sharia financial activities outside the traditional banking system, further underscoring the expanding role of Sharia fintech in improving access to financial services and driving economic growth in areas such as Kisaran City [16]. These findings collectively reinforce the idea that Sharia fintech plays an important role in advancing financial inclusion and driving economic development in Muslim-majority areas.

The consistency of claims on the private non-financial sector remaining at around 110.7% of GDP indicates stability which is important for the development of innovative Islamic financial products and services. The stability of the non-financial sector plays an important role in the sustainable development of Islamic financial products, as highlighted in various research papers [17][18][19]. Ensuring the stability of claims in the private non-financial sector provides a solid foundation for Islamic banks to create products that adhere to Shariah principles while still being able to adapt to changes in the global market landscape. By maintaining stability in the non-financial sector, Islamic banks can enhance their product offerings, promoting financial inclusion, sustainable economic growth, and ethical financial practices[20]. This emphasis on stability is not only in line with Islamic values but also contributes to the overall resilience and effectiveness of Islamic financial institutions in serving diverse market needs and fostering long-term economic sustainability [21][22].

The novel findings of this study suggest that while there are significant challenges in the digitization of claims in the banking sector, there are also great opportunities for diversification and stability in the non-bank and non-financial sectors. The originality of this article lies in the specific focus on international claims in the context of digitization and its impact on Islamic finance, which has not been widely explored in previous literature.

This research contributes to the development of knowledge by showing that technological adaptation and diversification of financial services are key to maintaining the competitiveness and stability of Islamic banks in the digital era. By identifying opportunities in the non-bank sector and emphasizing the importance of stability in the non-financial sector, this research offers strategic guidance for Islamic banks to overcome challenges and capitalize on opportunities in the fast-changing global economic environment.

IV. CONCLUSION

This research shows that the digital transformation taking place globally has a significant impact on international claims on the banking sector, particularly in the context of Islamic finance. The data shows that international claims across all sectors were relatively stable, with a significant annual increase of 3.8% in the fourth quarter of 2023. Claims on the non-bank sector saw a consistent increase throughout the year, while claims on the banking sector declined slightly in the third quarter before stabilizing again in the fourth quarter. The stability of claims on the private non-financial sector, with little fluctuation and the highest annual increase of 6.9% in the second quarter, emphasizes the importance of diversification and adaptation in Islamic banking services.

Based on these findings, Islamic banks are advised to strengthen Shariah compliance mechanisms to maintain operational stability in the digital era. International portfolio diversification, especially by capitalizing on the increase in claims in the non-bank sector, can improve operational efficiency and reduce risk. In addition, Islamic banks need to develop new services that comply with Shariah principles to meet the needs of the private non-financial sector. Developing adaptive and responsive strategies to changes in international claims and collaborating with Islamic fintechs can help Islamic banks overcome challenges and capitalize on opportunities, ensuring stability and sustainable growth in the Islamic finance industry.

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