

REPUTATIONAL RISK MITIGATION STRATEGIES FOR ISLAMIC BANKS IN THE DIGITAL ERA

¹ Vina Maratus Salsabila, ² Sirajul Arifin, ³ Binti Nur Asiyah, ⁴ Mey Susanti

¹ UIN Sayyid Ali Rahmatullah Tulungagung, Indonesia

² UIN Sunan Ampel Surabaya, Indonesia

³ UIN Sayyid Ali Rahmatullah Tulungagung, Indonesia

⁴ UIN Sayyid Ali Rahmatullah Tulungagung, Indonesia

Email: salsabilavina42@gmail.com

Abstract

This study aims to analyze reputation risk mitigation strategies for Islamic banks in the digital era using a descriptive qualitative approach, using a case study of the service disruption at Bank Syariah Indonesia (BSI) in 2023. The results indicate that Islamic banks' reputation is influenced by four main pillars: technological resilience, cybersecurity, public communication management, and sharia governance. Digital service disruptions can lead to viral public dissatisfaction if not accompanied by a swift, transparent, and empathetic crisis response. Furthermore, inconsistent sharia compliance has the potential to create perceptions of unsafe trust, which exacerbates reputation risk. This study concludes that reputation risk mitigation requires a holistic approach that includes strengthening digital infrastructure, enhancing cybersecurity capacity, developing crisis communication protocols, and strengthening sharia governance as the primary source of trust capital for Islamic banks. These findings are expected to form the basis for reputation strengthening strategies for the Islamic banking industry in the digital era.

Keywords: Reputation Risk, Islamic Banks, Digital Era.

INTRODUCTION

Islamic banks are financial institutions that operate in accordance with Sharia principles, with a focus on fairness, transparency, and ethics in all financial activities. Islamic banks are not only considered ordinary economic institutions but also institutions that uphold responsibility and religious values (Imani, 2023). Therefore, reputation is a crucial asset that significantly influences public trust. In the modern financial industry, reputational risk is often highly sensitive, as a decline in public trust can lead to a decline in customer numbers, sudden withdrawals, and a weakening of the financial institution's stability. In Islamic banks, sensitivity to reputational risk is particularly high because the public assesses not only professionalism and service quality but also the extent to which the bank adheres to Sharia principles (Nugraha, 2019).

Amidst rapid technological advancements and digitalization, Islamic banks are facing new changes in managing reputational risk. The current era brings significant opportunities through innovative, technology-enabled services, such as mobile banking, internet banking, and digital marketing. However, it also presents faster and broader reputational threats. Negative information about work errors, alleged violations of Sharia principles, or customer dissatisfaction can spread quickly through social media. Viral trends and pressure from public opinion pose serious challenges for Islamic banks, as Muslim customers are typically more sensitive to religious issues and moral values. Therefore, Islamic banks need to have strategies to mitigate reputational risk that are responsive, flexible, and ready to adapt to developments in the digital world (Kholis, 2020).

Reputational risk in Islamic banks can arise from various factors, such as non-compliance with Sharia regulations, unsatisfactory service, inefficient digital technology, fraud cases, internal conflicts, and unproven negative rumors on social media. Among these factors, non-compliance with Sharia is the most dangerous reputational risk, as it relates to halal (permissible) and haram (forbidden) matters and can significantly damage public trust (Sari & Khudri, 2024). Therefore, efforts to mitigate reputational risk in Islamic banks are inseparable from strengthening the role of the Sharia Supervisory Board (DPS), conducting regular Sharia audits, and providing clear and transparent information to the public.

In addition to Sharia challenges, digital transformation also brings new customer expectations, such as Service speed, ease of access, data protection, and a good user experience are all crucial. Sharia bank customers are increasingly paying attention to and comparing the digital services of Sharia banks with those of conventional banks and fintech companies. System failures, such as application errors, data leaks, delayed transactions, or slow digital service response times, can damage the bank's reputation. Therefore, it is crucial for Sharia banks to manage digital risks and ensure cybersecurity to mitigate reputational risk.

Furthermore, social media is a crucial platform for shaping the reputation of Sharia banks. Customers can openly voice complaints or negative experiences on platforms like Twitter, Facebook, Instagram, or TikTok. If not handled appropriately, these complaints can spread and create negative perceptions. Therefore, Sharia banks must have the ability to monitor social media, interact digitally, and manage crisis communications to respond quickly to issues. This approach should be carried out in accordance with Islamic service values, such as honesty, fairness, and professionalism, to reflect the Sharia principles inherent in bank operations. Internal factors, such as poor management, also increase reputational risk. Islamic banks must ensure that all work processes, from fundraising and lending to risk management and financial reporting, are conducted honestly, accurately, and in accordance with Sharia law. Implementing sound corporate compliance management will strengthen the reputational risk protection system, increasing the trust of customers and regulators (Siswanti, 2016).

As reputational risk becomes increasingly complex in the digital era, mitigation strategies must be more proactive, not simply responding after a problem occurs. Islamic banks need to combine various approaches, such as utilizing technology, maintaining compliance with Sharia principles, implementing strict internal controls, improving service quality, and effectively managing communications with the public. By implementing appropriate reputational mitigation strategies, Islamic banks can not only maintain public trust but also increase competitiveness and expand their market share amidst ongoing digital transformation.

Therefore, it is crucial to examine in-depth how Islamic banks can design effective reputational risk mitigation strategies that are aligned with the challenges of today's digital world. This research is crucial for Islamic banks to maintain public trust while simultaneously competing and adapting to a modern financial system increasingly influenced by technology.

METHODOLOGY

This research methodology uses a descriptive qualitative approach to deeply understand reputation risk mitigation strategies in Islamic banks in the digital era. Data were collected through a literature review of scientific journals, OJK reports, Bank Indonesia publications, DSN-MUI regulations, and previous research related to risk management, reputation, and Islamic banking. Furthermore, this study utilized document analysis in the form of Islamic bank annual reports, sustainability reports, and official bank publications related to reputation risk management. Data were analyzed through data reduction, data presentation, and conclusion drawing using the Miles and Huberman model, resulting in a comprehensive picture of the factors causing reputation risk and the mitigation strategies implemented by Islamic banks. Data validity was strengthened through source triangulation by comparing various academic references and official documents to ensure the accuracy and consistency of the findings.

RESULT AND DISCUSSION

1. The Complexity of Reputational Risk in the Digital Era for Islamic Banks

Reputational risk in Islamic banks in the digital age is increasingly complex due to technological changes that influence customer interactions, service types, and societal expectations. Reputational risk is now seen not only as a negative impression of a service, but has evolved into a social construct formed by various factors such as experience using technology, opinions on social media, and public awareness of Sharia compliance. In Islamic banks, reputation encompasses not only operational performance and trust in services, but also spiritual, theological, and moral aspects based on Sharia values (Hamdi Agustin, 2021). Therefore, the reputation of Islamic banks is more vulnerable than that of conventional banks, as any service errors or

operational issues are not only considered technical failures but can also be perceived as a breach of trust and a deviation from religious values. In this regard, reputation becomes an intangible asset that serves as a source of trust and plays a crucial role in maintaining the stability and growth of the Islamic banking industry as a whole.

In the digital world, the main factors that can cause reputational risk for Islamic banks arise from various channels such as social media, mobile banking applications, API integration with fintech, and how customers perceive the suitability of Islamic products. Social media plays a crucial role in shaping and disseminating public opinion due to its fast, interactive, and easily disseminated nature. A small customer complaint, such as a transaction delay, failed app login, or lack of response from customer service, can escalate into a major issue quickly. Errors in digital systems such as app disruptions, transaction errors, or obstacles in the e-KYC verification process often lead to customer frustration, ultimately changing their perception that Islamic banks are incapable of utilizing technology effectively. This is especially sensitive for Islamic banks, as most customers expect faith-based banks to have higher standards of management, ethics, and transparency than other financial institutions.

2. Case Study: Digital Disruption of Bank Syariah Indonesia (BSI) 2023

The case of the disruption of Bank Syariah Indonesia's (BSI) digital services in May 2023 (Kementerian Keuangan RI, 2023) This is a prime example of how reputational risk can escalate rapidly in a short period of time. A disruption suspected to be related to a ransomware attack disrupted mobile banking, ATMs, and teller transactions. Customers reported difficulties accessing balances, making transactions, and withdrawing money from ATMs. This incident immediately sparked widespread complaints on social media, which escalated with the emergence of false reports about data leaks, threats of lost funds, and concerns about BSI's unpreparedness to manage post-merger system integration. The reputational impact was significant: BSI became a national trending topic, the image of Islamic banks as safe and stable institutions was questioned, and public trust in the Islamic banking industry as a whole was undermined. This case demonstrates how fragile digital reputations can be, even for the largest Islamic banks in Indonesia.

3. A Comprehensive Strategy for Mitigating Islamic Bank Reputation Risk in the Digital Era

To prevent similar incidents from recurring and reduce the risk of reputational damage, prevention strategies must begin with comprehensive digital system strengthening. Islamic banks need to build more advanced, flexible, and resilient technology systems by implementing cloud computing, distributed architecture, and adequate disaster recovery centers. System testing must also be conducted regularly to ensure stability in the face of increased transaction volumes. Furthermore, cybersecurity is a crucial factor in maintaining a digital image. Implementing a Zero Trust Security approach, end-to-end encryption, layered authentication, and real-time monitoring of suspicious events through a Security Operation Center (SOC) are crucial steps to reduce the likelihood of cyberattacks that could damage reputations. The BSI case demonstrates that the threat of cyberattacks against Islamic banks is no longer a mere illusion, but a real threat that requires structured and ongoing action (Ardianingsih, Mardayanti, Ditta, & Priatiningsih, 2023).

In addition to improving technology, managing public communications is also crucial in mitigating risks to a bank's reputation. In today's digital age, responding quickly is no longer an option but a necessity. Islamic banks must have clear emergency communication protocols, such as a 24/7 communications team, a rapid announcement mechanism through various digital channels, and calm, honest, and fact-based messaging. In the case of BSI, delays in providing information at the onset of the disruption were a contributing factor to worsening public perception. Many customers felt they did not receive a clear explanation of the cause of the disruption and the estimated time for service restoration. This demonstrates the importance of a swift,

empathetic, and informative emergency response to safeguard the reputation of Islamic banks. Defensive or closed communication can prolong the impact of the crisis and erode public trust.

Within the framework of Sharia law, mitigating reputational risk also relates to strengthening Sharia governance, a key foundation of Islamic banking. Sharia governance encompasses the active role of the Sharia Supervisory Board (SSB), conducting regular Sharia audits, and ensuring that contracts are implemented in accordance with fatwas issued by the National Sharia Council (DSN-MUI). Sharia-related reputational risks can arise from small issues such as misinformation by officers explaining products to customers, confusing wording, or inappropriate contract processes. Customers sensitive to Sharia issues can readily criticize banks if they feel the products or processes offered do not reflect Sharia values. Therefore, it is crucial to enhance Sharia knowledge among all employees, including call center officers, digital agents, and marketers, to avoid misunderstandings and avoid reputational risks.

Furthermore, improving service quality (customer experience) plays a crucial role in mitigating reputational risk in Islamic banks. Banking services should not only focus on completing transactions but also prioritize the overall customer experience. This includes speed of service, consistency across multiple channels (omnichannel), ease of access to information, and the quality of interactions between staff and customers (Muhammad & Santika, 2021). Simplified processes, faster digital registration, and automated AI-based services could be solutions to reduce public complaints. In an academic context, good service quality has been shown to be highly correlated with customer loyalty and trust, which directly impact the image of Islamic banks. High-quality service tends to lead to positive public perception of the bank, minimizing the risk of image problems.

Overall, this discussion demonstrates that mitigating reputational risks to Islamic banks in the digital age requires a comprehensive approach. This approach encompasses various aspects such as technology, communications, sharia governance, and service. The BSI case study demonstrates that technological issues can have a significant reputational impact, especially if not accompanied by effective crisis management and communication. Therefore, Islamic banks must not only keep up with technological developments but also establish sound, responsive, and sharia-compliant governance systems. A bank's reputation reflects how it carries out its responsibilities, provides services, and demonstrates honesty in all its operations. By having a robust mitigation strategy, Islamic banks can build lasting trust, maintain smooth operations, and enhance their position amidst the competition in the modern banking industry.

CONCLUSION

The reputational risks faced by Islamic banks in the digital age are increasingly complex due to the rapid adoption of technology, high customer expectations, and public attention to Sharia compliance. Issues such as service disruptions, inadequate cybersecurity, and evolving opinions on social media can quickly change public perceptions of a bank. For example, the BSI system disruption in 2023 demonstrated how digital reputations can collapse without robust infrastructure and responsive emergency communications. Therefore, mitigating reputational risks requires a comprehensive approach. This includes enhancing technological resilience, effectively managing cybersecurity, improving the quality of digital services, establishing prompt and honest crisis communication protocols, and strengthening Sharia management to ensure all processes and products remain aligned with Islamic values. By combining these strategies, Islamic banks can maintain public trust, build strong reputational resilience, and enhance competitiveness amidst increasingly fierce digital competition.

REFERENCES

1. Ardianingsih, A., Mardayanti, M., Ditta, A. S. A., & Priatiningsih, D. (2023). Literasi Mengenal Manajemen Risiko pada Koperasi Simpan Pinjam dan Pembiayaan Syariah (KSPPS). *DEDIKASI PKM*, 4(3), 380. <https://doi.org/10.32493/dedikasipkm.v4i3.30173>
2. Hamdi Agustin. (2021). *Manajemen Risiko Bnak Syariah*. Padang: GEMILANG PRESS INDONESIA.
3. Imani, S. (2023). *Lembaga Keuangan Syariah*. bandung: CV. MEDIA SAINS INDONESIA.
4. Kementerian Keuangan RI. (2023). Gangguan Layanan BSI Tidak Pengaruhi Layanan Penerimaan dan Pengeluaran Negara. Retrieved from <https://www.kemenkeu.go.id/informasi-publik/publikasi/siaran-pers/Gangguan-Layanan-BSI>
5. Kholis, N. (2020). PERBANKAN DALAM ERA BARU DIGITAL. *Economicus*. <https://doi.org/10.47860/economicus.v12i1.149>
6. Muhammad, Y., & Santika, G. (2021). Analisis Pengaruh Kualitas Pelayanan Bank Terhadap Kepuasan Nasabah Tabungan Mudharabah di Bank Syariah Mandiri Kantor Cabang Tasikmalaya. *Jurnal Ekonomi Rabbani*, 1(1), 63–69. <https://doi.org/10.53566/jer.v1i1.17>
7. Nugraha, D. E. (2019). MANAJEMEN RISIKO PERBANKAN SYARIAH. *EKSISBANK*, 3(2), 100–107.
8. Sari, A. M., & Khudri, T. M. Y. (2024). EVALUASI PERAN AUDIT INTERNAL DALAM MANAJEMEN RISIKO REPUTASI. *Jurnal Ilmiah Manajemen, Ekonomi, & Akuntansi (MEA)*, 8(1), 518–527. <https://doi.org/10.31955/mea.v8i1.3694>
9. Siswanti, I. (2016). Implementasi Good Corporate Governance pada Kinerja Bank syariah. *Jurnal Akuntansi Multiparadigma*. <https://doi.org/10.18202/jamal.2016.08.7023>