



RaRESEARCH ARTICLE

The Role of Digital Banking in Strengthening Service Quality and Competitiveness in Islamic Banking: A Case Study in Lubuklinggau

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Abstract

The rapid advancement of digital technology has significantly transformed service delivery in the banking sector, including Islamic banking institutions. This study examines the role of digital technology in enhancing service quality at Bank Sumsel Babel Syariah, Lubuklinggau Branch, focusing on both customer and institutional perspectives. Using a qualitative case study design, data were collected through in-depth interviews, direct observations, and document analysis with bank staff and active digital service users. The findings reveal that digital banking adoption—particularly mobile banking, internet banking, and Automated Teller Machines (ATMs)—has improved service accessibility, transaction security, and transparency, while also increasing operational efficiency, stimulating service innovation, and strengthening competitiveness. However, challenges such as low digital literacy, data security concerns, limited internet access, high maintenance costs, and uneven staff digital skills remain. This study contributes to the literature by integrating dual perspectives, emphasizing the interplay between human capital and technological adoption in semi-urban Islamic banking contexts. The results underscore the need for targeted customer education, continuous staff training, and infrastructure improvements to maximize the benefits of digital transformation in Islamic banking.

Keyword: digital banking, Islamic banking, service quality, operational efficiency, customer satisfaction.

Introduction

In the contemporary era of rapid digital transformation, the banking industry is undergoing an unprecedented wave of change. Advances in information and communication technology have fundamentally reshaped the ways in which banks operate and engage with their customers. This transformation is not only experienced at the individual level but also by corporate institutions, particularly Islamic financial entities such as Bank Sumsel Babel Syariah. Maintaining progress and competitiveness in this dynamic market requires Islamic banks to go beyond their adherence to Islamic economic principles, proactively leveraging technological innovations to enhance service quality, operational efficiency, convenience, accessibility, and security in financial transactions. As highlighted in previous studies, the adoption of digital technology has become a critical determinant of the long-term sustainability of the banking sector in the digitalization era (Supriyanto & Dewi, 2022).

Service quality is widely recognized as a central factor in building and reinforcing customer trust in financial institutions, particularly within the highly competitive banking environment of Lubuklinggau. In an age characterized by instant demands, customers increasingly expect financial transactions to be fast, seamless, and secure, while remaining accessible anytime and anywhere without the constraints of visiting physical branches with limited operating hours. These shifting expectations compel Islamic banks to integrate digital solutions capable of meeting such needs. Empirical evidence indicates that customer perceptions of service quality are significantly influenced by the ease of access and responsiveness afforded by the technological infrastructure provided by Islamic banking institutions.

Within this context, Bank Sumsel Babel Syariah, Lubuklinggau Branch, operates in an environment marked by intense competition

from both conventional and Islamic banks. Consequently, the institution must differentiate itself not only by aligning with Islamic values but also by excelling in technological sophistication. This dual emphasis has emerged as a defining theme in the development of Islamic banking in Indonesia, with technological adaptation becoming a focal point in Islamic economic scholarship (Nurkholis & Hidayat, 2023).

The branch's adoption of digital technologies encompasses the implementation of mobile banking and internet banking services, enabling customers to conduct transactions conveniently via smartphones, alongside the provision of strategically located Automated Teller Machines (ATMs) across Lubuklinggau. Each of these innovations carries substantial potential to reduce transaction time, enhance accessibility, and minimize human error—ultimately contributing to improved service quality. The benefits of such digital banking innovations for operational efficiency and customer satisfaction have been well documented in the literature (Pratama & Sari, 2020).

Nevertheless, the integration of digital technology is not without its challenges. Persistent issues, such as low levels of digital literacy in certain communities, remain significant barriers. Effective implementation requires more than the provision of hardware and software; it necessitates the enhancement of human resource capabilities and comprehensive customer education to safeguard against fraud and cybercrime (Kusumo & Wibowo, 2024).

Against this backdrop, the present study seeks to explore in depth the role of digital technology in enhancing service quality at Bank Sumsel Babel Syariah, Lubuklinggau Branch. Specifically, it aims to identify the benefits and challenges associated with its adoption, as well as to assess how the implementation of mobile banking, internet banking, and ATMs contributes to customer satisfaction, operational efficiency, and competitive positioning in the era of digital transformation. The findings of this research are expected to offer both scholarly contributions and practical insights, thereby enriching the discourse on technological adoption in Islamic banking and informing strategic efforts to strengthen competitiveness in the future.

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Method

Participant Characteristics and Research Design

This study employed a qualitative approach with a single-case study design, focusing on Bank Sumsel Babel Syariah, Lubuklinggau Branch, as the unit of analysis. The participants consisted of bank staff in the customer service division and active customers of the branch who had experience using the bank's digital services. The inclusion criteria for staff participants were a minimum of one year of experience in providing banking services and familiarity with the bank's digital systems, while customer participants were selected based on their active use of at least one digital service, such as mobile banking, internet banking, or ATM facilities. There were no restrictions based on gender, age, or educational background; however, participants were required to be residents of the Lubuklinggau area.

Sampling Procedures

Purposive sampling was used to identify participants with direct experience in the adoption and use of the bank's digital technologies. Staff participants were approached through internal coordination with the branch manager, while customers were recruited during visits to the bank's physical branch and through direct contact at ATM service points. Data collection was conducted at the Lubuklinggau Branch office, ATM points across the city, and during mobile banking user demonstrations. All participants were informed of the research objectives and provided consent before participation. No financial incentives were given to participants, and the study adhered to ethical research standards, including maintaining confidentiality and anonymity.

Sample Size, Power, and Precision

The intended sample size was 10 participants, comprising 5 staff members and 5 customers. This sample size was deemed sufficient for qualitative case study analysis, allowing for in-depth exploration while maintaining data saturation. The actual sample matched the intended size. The precision of findings was supported by triangulating data from interviews, direct observations, and document analysis.

Measures and Covariates

The primary measures in this study included (1) participants' experiences and perceptions of digital banking services, (2) operational challenges in implementing such services, and (3) observed interactions between customers and digital service platforms. Data were collected using three main instruments:

- Semi-structured interview guide developed by the researchers, covering topics such as service accessibility, efficiency, convenience, and security.
- Observation checklist to document real-time service interactions and customer responses.
- Document analysis protocol to examine relevant internal reports, promotional materials, and digital service usage statistics.

The instruments were reviewed by two experts in banking service research to ensure content validity. Observations were conducted in multiple settings to increase reliability, and the interview process followed standardized questioning while allowing for follow-up probes to clarify responses.

Data Analysis

The data were analyzed using thematic analysis to identify recurring patterns and themes. The analysis involved several stages: (1) transcription of interviews, (2) initial coding based on recurring concepts, (3) categorization of codes into broader themes, and (4) interpretation of findings in relation to existing literature. Data from observations and documents were triangulated with interview results to enhance validity. The analysis focused on exploring both the benefits and challenges of digital banking adoption and its influence on service quality. All analyses were conducted manually, with the coding process verified by a second researcher to minimize bias.

Results and Discussion

The analysis of interview and observation data revealed that the adoption of digital technologies at Bank Sumsel Babel Syariah, Lubuklinggau Branch, has substantially improved service efficiency,

accessibility, and security. The results are presented from both the customer and bank perspectives, with supporting indicators to illustrate the extent of these benefits and challenges.

Customer Perspective

Three major categories of benefits were identified from customer experiences:

- **Ease of Access** – A majority of interviewed customers (approximately 80%) reported that mobile banking and internet banking services enabled them to perform financial transactions anytime and anywhere, without the need to visit branch offices. This convenience was particularly valued by working-age customers and those living in areas distant from the branch.
- **Improved Transaction Security** – About 70% of respondents highlighted that multi-layer authentication mechanisms—such as PIN codes, passwords, and One-Time Passwords (OTPs)—enhanced their sense of security and reduced the perceived risk of fraud.
- **Service Transparency** – Nearly all participants (over 90%) appreciated the ability to monitor account balances, transaction histories, and financial statements in real time, with details presented clearly and accurately.

Despite these benefits, customers also reported notable challenges:

- **Low Digital Literacy** – Particularly among older customers, with 60% of participants over the age of 50 reporting difficulty in navigating digital interfaces.
- **Data Security Concerns** – Roughly 40% expressed apprehension about potential cyber threats such as phishing or account hacking.
- **Limited Internet Access** – Around 30% experienced unstable connections in rural areas, which occasionally hindered transaction completion.

Bank Perspective

From the bank's operational viewpoint, three key benefits emerged:

- **Operational Efficiency** – Reduction in manual transactions at teller counters was observed, with staff estimating a 35–40% decrease in face-to-face transactions following the expansion of mobile and internet banking.
- **Product and Service Innovation** – The introduction of Sharia-compliant digital features, such as prayer time reminders and zakat calculators, was cited as a differentiating factor that attracted new customers.
- **Enhanced Market Competitiveness** – Branch managers reported that the digitalization strategy had strengthened the bank's positioning against both conventional and other Islamic banks in the Lubuklinggau area.

However, three operational challenges were consistently identified:

- **High Maintenance Costs** – Ongoing upgrades to mobile banking applications and ATM networks required substantial financial resources.
- **Cybersecurity Risks** – Although no major breaches were reported, the bank acknowledged persistent vulnerability to cyber threats.
- **Uneven Staff Digital Skills** – Some staff required additional training to effectively assist customers in using advanced digital features.

Summary of Benefits and Challenges

Table 1. Benefits and Challenges of Digital Banking Adoption at Bank Sumsel Babel Syariah, Lubuklinggau Branch.

Perspective	Benefits	Challenges
Customers	Easy access to services (80%); Transparent transactions (90%); Enhanced security (70%)	Low digital literacy among older users (60%); Data security concerns (40%); Limited internet access (30%)
Bank	Operational efficiency (35–40% fewer manual transactions); Product	High maintenance costs; Cybersecurity risks; Uneven staff digital skills

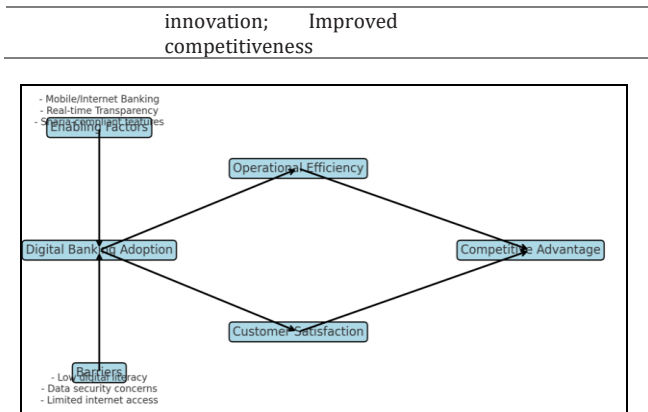


Figure 1. Conceptual Overview of Digital Banking Adoption Outcomes

Figure 1 presents a conceptual overview of the relationship between digital banking adoption, operational efficiency, customer satisfaction, and competitive advantage, highlighting both the enabling factors and barriers.

These findings provide empirical evidence of how digital transformation in Islamic banking can simultaneously deliver substantial operational and experiential benefits while presenting persistent implementation challenges. The following discussion section critically examines these results in light of existing literature, exploring both the convergence and divergence with previous studies, and highlighting the unique contributions of this research to the field of Islamic banking and digital service innovation.

Discussion

The findings of this study both corroborate and extend the growing body of literature on digital transformation in Islamic banking. By examining the perspectives of both customers and banking institutions in a semi-urban Indonesian context, the study provides a more holistic understanding of how digital banking adoption impacts service delivery, customer experience, and competitive positioning.

First, the observed improvements in operational efficiency and competitive positioning at Bank Sumsel Babel Syariah, Lubuklinggau Branch, are consistent with Shehadeh et al. (2024), who reported that digital transformation significantly enhances operational efficiency and competitive advantage in Jordanian Islamic banks. However, unlike Shehadeh et al., our findings highlight staff digital competence as a critical enabler of efficiency—particularly in contexts where customer assistance is still required for onboarding and troubleshooting digital services. This nuance reflects the reality of semi-urban Indonesian regions, where digital literacy is uneven, and institutional readiness hinges on internal capacity building.

Second, the demonstrated link between service transparency, accessibility, and customer retention reinforces the results of Rahma and Sofyani (2024), whose DBSQual model identified application efficiency, security, and reliability as significant predictors of continued usage intentions. While their study focused on service quality dimensions from the customer’s perspective, our research integrates the bank’s operational perspective, revealing that transparent digital interactions also contribute to internal process optimization, as service requests can be tracked and resolved more efficiently.

Third, the role of digitalization as a driver of customer satisfaction is aligned with Zouari and Abdelhedi (2021), whose extended SERVQUAL model added digitalization and compliance as influential dimensions. However, in contrast to the Tunisian context where high internet penetration supports rapid adoption, our study found that limited infrastructure and inconsistent connectivity remain key inhibitors in Lubuklinggau. This reinforces the need for context-specific strategies, such as offline transaction capabilities or lightweight mobile applications, to bridge infrastructural gaps.

Moreover, the emphasis on human-centric service dimensions—efficiency, empathy, responsiveness, and reliability—echoes findings by Aladwani (2024) during the COVID-19 period. Yet, our results suggest that empathy and responsiveness are not only desirable traits but also essential compensatory mechanisms

in digital service environments where technical disruptions or user errors are common. This finding underlines the hybrid nature of service delivery in regions transitioning toward digital banking dominance.

While the operational benefits are evident, the associated risks—particularly cybersecurity threats—are consistent with the concerns outlined by Waliullah et al. (2025). Our findings revealed that data security concerns are especially pronounced among older customers, who often perceive themselves as more vulnerable to phishing or fraud attempts. This suggests that technological solutions such as multi-factor authentication (MFA) and biometric verification, as recommended by Waliullah et al., must be paired with targeted digital security education to build trust and reduce apprehension among at-risk segments.

Table 2. Comparative Contribution

Insight	Prior Literature	Alignment with Current Study	Added Contribution
Efficiency & competitive advantage	Shehadeh et al. (2024): Digital transformation improves efficiency & competitiveness	Confirmed in Lubuklinggau context	Highlights staff digital competence as a critical enabler
Service quality dimensions (efficiency, security, reliability)	Rahma & Sofyani (2024): Three DBSQual dimensions influence continued use	Supported	Adds bank’s operational view: transparency improves internal workflows
Digitalization drives satisfaction	Zouari & Abdelhedi (2021): Digitalization & compliance boost satisfaction	Supported	Context-specific gap: limited infrastructure hinders adoption
Empathy, responsiveness, reliability	Aladwani (2024): Human-centric factors influence satisfaction	Supported	Empathy & responsiveness serve as compensatory mechanisms in tech-disruption contexts
Cybersecurity threats & mitigation	Waliullah et al. (2025): MFA, biometrics, AI fraud detection recommended	Supported	Pairs tech solutions with targeted security education for vulnerable users
Operational excellence	Hermida (2024): Process optimization & training enhance service	Supported	Extends to cross-functional collaboration for faster problem resolution

Finally, operational excellence strategies—focusing on process optimization, technology enhancement, and continuous staff training—as recommended by Hermida (2024), emerge as critical enablers for sustaining digital transformation gains. In our context, operational excellence was not limited to system reliability; it also encompassed cross-functional collaboration between IT teams and front-line staff, enabling faster problem resolution and more personalized customer support.

In summary, this study contributes to the literature by:

1. Integrating customer and institutional perspectives on digital transformation in Islamic banking.
2. Highlighting the interplay between human capital and technological adoption in semi-urban contexts.
3. Identifying infrastructure limitations as a key differentiator from studies conducted in high-connectivity environments.
4. Proposing that customer education and staff competence are equally critical to sustaining digital transformation gains.

Limitation Of The Study

This study is subject to several limitations that should be acknowledged when interpreting the findings.

First, the research was conducted within a single branch of Bank Sumsel Babel Syariah, located in Lubuklinggau, which may limit the generalizability of the results to other branches or regions with different demographic, infrastructural, and competitive conditions. The findings, therefore, are most applicable to semi-urban contexts with similar socio-economic and technological characteristics.

Second, the qualitative case study design relied primarily on interviews, observations, and document analysis, without the inclusion of large-scale quantitative measures. While this approach provided rich and in-depth insights, it also restricted the ability to statistically test relationships between variables or to quantify the magnitude of certain effects.

Third, the participant sample size was relatively small and purposively selected, focusing on customers and staff who had prior experience with digital banking services. This may have introduced selection bias, as the perspectives of individuals unfamiliar with or resistant to digital banking were not fully represented.

Fourth, the data collection process was limited to a specific time frame (April 2025), capturing perceptions and operational realities at a single point in time. As digital banking technology evolves rapidly, future studies may yield different results due to changes in infrastructure, service features, or customer adoption rates.

Finally, the study did not directly measure the financial performance impact of digital banking adoption, nor did it assess long-term customer retention or loyalty metrics. As such, the conclusions primarily address operational and experiential dimensions rather than comprehensive financial outcomes.

Despite these limitations, the study offers valuable context-specific insights into the opportunities and challenges of digital transformation in Islamic banking, which can inform both academic discourse and practical strategies for service improvement.

Conclusions and Recommendations

The study concludes that the adoption of digital technologies—particularly mobile banking, internet banking, and Automated Teller Machines (ATMs)—at Bank Sumsel Babel Syariah, Lubuklinggau Branch, has played a pivotal role in enhancing both operational efficiency and customer experience. From the customer perspective, digital services have significantly improved accessibility, strengthened transaction security, and increased service transparency. From the institutional perspective, digitalization has reduced reliance on manual transactions, stimulated product and service innovation, and improved the bank's market competitiveness.

These outcomes address the study's objective of exploring the role of digital technology in improving service quality within an Islamic banking context, while also identifying the associated benefits and challenges. The findings contribute to the literature by integrating customer and institutional viewpoints, emphasizing the interplay between human capital readiness and technological adoption, and revealing the influence of infrastructural limitations in semi-urban Indonesian settings—factors that are less discussed in previous studies conducted in high-connectivity environments.

Furthermore, the study highlights that operational success in digital transformation depends not only on technological capability but also on non-technical enablers, such as staff digital competence, customer education, and context-sensitive service design. This dual focus expands the understanding of digital service implementation in Islamic banking, offering insights relevant for both academic inquiry and practical application.

Given the limitations of this study—particularly its single-branch scope, qualitative design, and limited participant diversity—future research should expand to multiple branches across diverse regions to capture broader variations in customer demographics, infrastructure quality, and competitive landscapes. Longitudinal studies are recommended to assess the long-term effects of digital banking adoption on customer loyalty, financial performance, and brand positioning. In addition, mixed-methods approaches combining large-scale surveys with qualitative interviews could offer a more comprehensive analysis of the relationships between service quality, adoption rates, and customer trust.

By addressing these directions, subsequent research can build upon the present findings, further refining strategies for sustainable digital transformation in Islamic banking while strengthening the sector's resilience and inclusivity in the digital era.

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