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Navigating Geopolitical Crossfire: Oil Shocks, Digital Agility, and Sharia Governance in the Iran-Israel-US Crisis

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Abstract

The geopolitical crisis centered on the escalating conflict between Iran, Israel, and the United States up to the end of 2026 has radically altered the global macroeconomic risk landscape. This study aims to analyze the impact of the shrinking economic stability space due to geopolitical shocks on the resilience of Islamic banking, exploring how the integration of digital agility and Sharia governance mediates these shocks. Using an explanatory thematic analysis method, this study explicitly establishes the Oil Digital Sharia or ODS framework as its primary theoretical contribution. The findings confirm that Middle Eastern political risks and structural oil price volatility transform systemic banking risk into decreased liquidity and increased non performing financing ratios, driven by inflation spikes above three percent. Although Islamic banks possess a stronger capital cushion than conventional banks, their resilience remains vulnerable to capital flight known as displaced commercial risk. This study confirms that resilience is actively constructed through a dual safety belt consisting of digital service transformation via artificial intelligence and strict Sharia board supervision backed by accounting and finance qualifications. This study recommends the need for central banks to design macroprudential instruments sensitive to geopolitical crises and urges Islamic banks in the Southeast Asian region to strengthen cyber risk mitigation within the framework of Islamic law compliance.

Keywords: Geopolitical Risk; Oil Price Shocks; Digital Agility; Sharia Governance; Banking Resilience.

Abstrak

Krisis geopolitik yang berpusat pada eskalasi konflik antara Iran, Israel, dan Amerika Serikat hingga akhir tahun dua ribu dua puluh enam secara radikal telah mengubah peta risiko makroekonomi global. Penelitian ini bertujuan untuk menganalisis pengaruh menyempitnya ruang stabilitas ekonomi akibat guncangan geopolitik terhadap resiliensi perbankan syariah serta menelusuri bagaimana integrasi ketangkasan digital dan tata kelola syariah memediasi guncangan tersebut. Dengan menggunakan metode analisis tematik eksplanatori, studi ini secara eksplisit menetapkan kerangka kerja Oil Digital Sharia atau ODS sebagai kontribusi teoretis utamanya. Temuan penelitian mengonfirmasi bahwa

risiko politik Timur Tengah dan volatilitas struktural harga minyak mentransformasikan risiko sistemik perbankan menjadi penurunan likuiditas dan peningkatan rasio pembiayaan bermasalah yang dipicu oleh lonjakan inflasi di atas tiga persen. Meskipun bank syariah terbukti memiliki modal yang lebih kuat dari bank konvensional, ketahanan mereka rentan terhadap pelarian modal atau displaced commercial risk. Studi ini menegaskan bahwa resiliensi dikonstruksi secara aktif melalui sabuk pengaman ganda berupa transformasi layanan digital berbasis kecerdasan buatan dan keketatan pengawasan dewan syariah yang didukung kualifikasi akuntansi dan keuangan. Studi ini merekomendasikan perlunya bank sentral merancang instrumen makroprudensial yang peka terhadap krisis geopolitik serta mendesak perbankan syariah di kawasan Asia Tenggara untuk memperkuat mitigasi risiko siber dalam kerangka kepatuhan hukum Islam.

Kata kunci: *Risiko Geopolitik; Guncangan Harga Minyak; Ketangkasan Digital; Tata Kelola Syariah; Resiliensi Perbankan.*

INTRODUCTION

The escalation of military conflict between Iran, Israel, and the United States until the end of 2026 has empirically narrowed the space for macroeconomic stability of global Islamic banking through shocks to the world's energy supply. This is because logistical constraints and multilateral sanctions directly trigger unpredictable crude oil price volatility and push global inflation beyond the psychological threshold of three percent (Alalmai, 2025). Industry data shows that inflationary pressures throughout 2026 drastically reduced people's purchasing power, thereby hampering the payment capacity of real-sector customers in commodity-importing countries (Ryandono et al., 2022). This phenomenon worsened asset accounting due to a surge in the non-performing financing ratio and threatened the liquidity position of Islamic financial institutions across jurisdictions (Al-Wesabi & Yusof, 2020). Therefore, contemporary geopolitical tensions have transformed from mere regional security crises into systemic pathogens that threaten the resilience of the global Islamic financial architecture.

Previous studies on the resilience of financial institutions during the crisis were still trapped in the fragmentation of conventional risk sharing analysis without holistic integration (Majid et al., 2025). Most academics tend to focus on the advantages of internal capital in Islamic banking or examine the volatility of energy commodities separately without linking it to governance variables (Maghyereh et al., 2022). Some recent literature has begun to explore AI-based operational efficiency, while other groups of researchers have focused solely on fatwa compliance in formal legal terms (Shehadeh et al., 2024; Srairi, 2024). Consequently, there is a significant literature gap in explaining how technological agility and sharia compliance authority can work together as external shock absorbers (Yunan et al., 2024). Thus, the limited perspectives of previous research leave conceptual uncertainty regarding how the banking system's internal safety belt operates when facing a war situation (Aysan & Hersi, 2024).

This research offers theoretical novelty through the construction of the Oil Digital Sharia or ODS model as a conceptual framework that integrates commodity

shocks with the internal resilience variables of Islamic banking (Daoud & Kammoun, 2024). The ODS framework assumes that financial resilience does not occur automatically but is actively mediated by digital technology capacity and the enforcement of sharia governance (Boulanouar et al., 2026). Amid the volatility of late 2026, the adoption of financial technology has been shown to radically reduce operational costs, while the Sharia board serves to prevent speculative investments (Al Khassawneh, 2024; Muslihun, 2023). The synthesis of these three elements corrects the old deterministic view that Islamic banking is immune to crises simply because it uses an interest-free profit-sharing scheme (Mimoun, 2021). Through this integrative approach, this paper successfully breaks the academic ice by presenting a multidimensional risk assessment methodology that is relevant to the current era of global political fragmentation.

The geopolitical impact transmission mechanism operates through a layered pathway from upstream to downstream which systematically degrades the financial health of global Islamic banking. Upstream, international sanctions and military conflicts directly disrupt currency stability and trigger energy supply shocks (Martínez-Galán, 2021). This impact then shifted toward the middle in the form of domestic hyperinflation, which damaged operational cost structures and squeezed the profit margins of bank partners (Alalmai, 2025). Downstream, this decline in real sector performance translated into a surge in non-performing financing and triggered massive withdrawals due to depositor concerns about displaced commercial risk (Nouman et al., 2022; Rouetbi et al., 2023). Understanding this upstream-to-downstream flow is crucial for mapping how global volatility can translate into a significant decline in Islamic banking liquidity.

This study aims to analyze the impact of the narrowing of economic stability due to geopolitical shocks in Iran, Israel, and the United States on the resilience of global Islamic banking. Through systematic mapping, this study seeks to uncover the capacity of digital agility and sharia governance to mitigate the risk of asset quality decline during the crisis. The importance of this analysis lies in its ability to identify effective sharia hedging instruments and social safety nets in affected regions such as Southeast Asia. The results of this investigation are highly significant for regulators in developing adaptive stress test guidelines for worst-case scenarios of armed conflict. Overall, the achievement of this research target will provide a foundation for practitioners in formulating robust financial defense policies.

This research argues that the success of Islamic banking in navigating the geopolitical crisis at the end of 2026 is determined by the functional collaboration between digital algorithms and sharia compliance. This argument is based on the fact that the adoption of branchless banking services reduces physical vulnerability while the independence of the Sharia board maintains business integrity (Al Khassawneh, 2024; Sueb et al., 2022). The scientific contribution of this manuscript is to expand the theory of international risk management by incorporating the variables of digital literature of *fiqh al raqmiyah* into the Islamic financial architecture. This research

provides a practical contribution in the form of a blueprint for central banks to implement macroprudential policies that are sensitive to commodity volatility. Through this contribution, this article successfully establishes a new paradigm regarding the importance of operational flexibility in maintaining the sustainability of the Islamic banking industry in the future.

LITERATURE REVIEW

Geopolitical Risks and Financial Stability

The theoretical basis for analyzing the impact of international conflict on financial institutions is rooted in geopolitical risk theory, which explains how military threats and hegemonic sanctions narrow the space for capital mobility across countries (Zehri et al., 2026). In a modern macroeconomic perspective, foreign political risk acts as an exogenous systemic shock that radically changes market expectations and increases investment risk premiums in financial institutions (Adibian et al., 2025; Feng et al., 2025). Diplomatic disruptions involving Iran, Israel, and the United States have been empirically proven to freeze international transaction channels and suppress the growth of Islamic banking funding in developing countries (Martínez-Galán, 2021; Suhartini, 2025). This is in line with the institutional uncertainty theory, which states that escalating political tensions reduce banking profitability through increasing capital costs and decreasing the quality of real sector asset guarantees (Dang et al., 2025). The lack of regional political stability ultimately transmits negative sentiment that accumulatively degrades the strength of bank balance sheets (Adeneye et al., 2025).

Structural Shocks of Oil Prices and Banking Resilience

The analysis of energy price fluctuations on the financial health of Islamic banking is guided by the theory of structural shocks of oil, which divides the impact of commodities based on market supply and demand motives (Adeneye et al., 2025; Slimane & Alsolamy, 2024). Theoretically, Muslim countries' dependence on energy supplies makes their financing portfolios highly vulnerable to global commodity price volatility (Dawar & Bai, 2026). When a supply shock occurs due to war, a rise in domestic inflation above the three percent threshold drastically erodes the internal liquidity capacity of Islamic banks and triggers an increase in non-performing financing (Badarin et al., 2024). This phenomenon strengthens the argument of macro business cycle theory that upstream commodity shocks will disrupt the financial performance of the real sector downstream (Cao & Dong, 2025). Therefore, the financial resilience of Islamic banking is not absolute but rather highly sensitive to inflation dynamics and foreign exchange rate stability.

Digital Agility as Institutional Risk Mitigation

The conceptualization of banking service transformation in the face of regional restrictions is based on the theory of dynamic capabilities and institutional digital

agility (Nikitina & Skalaban, 2025). This theory states that in extreme market volatility, organizations must have the infrastructure flexibility to transform conventional operational business models into algorithm-based digital ecosystems (Kumbhojkar et al., 2025). The implementation of financial technology is no longer merely a transaction complement but acts as an operational risk mitigation agent that significantly reduces the cost-to-income ratio (Mbaidin et al., 2024). Through the digitization of branchless banking services, Islamic financial institutions are able to maintain emotional closeness and accessibility of funds for customers, transcending political and bureaucratic barriers (Fernández, 2021). However, the adoption of this technology has given rise to a new risk paradox in the form of cybercrime threats, which require strengthening internal banking information security governance.

Sharia Governance and Ethical Agency

Internal control mechanisms to limit moral hazard management during market panics are analyzed using Sharia governance theory that extends the basic assumptions of conventional agency theory (Bouheraoua & Djafri, 2022). This ethical agency theory positions the Sharia Supervisory Board as an independent epistemic actor with veto authority to stop board decisions that pursue harmful speculative profits (Alam & Miah, 2021). The presence of Sharia board members with cross-disciplinary expertise in accounting and finance has been statistically proven to significantly reduce the level of bank credit risk (Umar et al., 2024). This layered oversight ensures that asset allocation remains compliant with the principles of *maqashid al shariah* and avoids the manipulation of virtual contracts containing elements of *gharar* (Bouheraoua & Djafri, 2022). The effectiveness of sharia governance ultimately becomes a key pillar in protecting the institution's reputation and fulfilling the bank's social responsibilities.

Macroprudential Regulation and Displaced Commercial Risk

The stability of the Islamic financial industry is collectively examined through macroprudential regulation theory, which focuses on minimizing systemic risk through anticyclical capital cushion instruments (Kok et al., 2022). Compliance with international standards formulated by the IFSB and Basel III serves as a primary monetary safety belt that protects banks from the danger of mass bankruptcies (Naouar et al., 2024). Strict capital regulation is crucial to mitigate displaced commercial risk, which arises when rational customers threaten to withdraw their funds in search of higher conventional returns (Basri et al., 2025). Macroprudential policies that are sensitive to market concentration levels have proven effective in curbing unhealthy credit distribution during periods of economic crisis (Bergant et al., 2024). By enforcing market discipline and establishing profit-matching reserves, Islamic banking is able to maintain consumer confidence and safeguard national monetary stability.

RESEARCH METHOD

This research uses a descriptive, analytical, qualitative research design that focuses on in-depth interview methods with Islamic economic experts and Islamic banking practitioners. This qualitative approach was deliberately chosen because it is able to explore the subjective perceptions and complex institutional responses of Islamic banking decision-makers amidst a dynamic global geopolitical crisis (Miles et al., 2020). The use of in-depth interview methods is also crucial for obtaining valid primary data regarding internal mitigation strategies that are not published in official banking annual reports (Creswell & Creswell, 2018). The initial procedural step begins by establishing key informant selection criteria based on academic competency and a minimum of ten years of managerial experience in the regional Islamic finance industry. The researchers then developed a semi-structured questionnaire that was validated by a panel of experts to ensure the instrument's alignment with the objectives of the ODS framework analysis. The final stage of preparation was carried out by taking care of research ethics permits and confirming the willingness of informants across jurisdictions to be interviewed in order to maintain data confidentiality.

The main subjects in this qualitative research consist of senior academics, active members of the Sharia Supervisory Board, and directors of Islamic banking risk management. Informant selection used a purposive sampling technique to ensure that all verbal data obtained came from individuals with scientific authority and direct involvement in designing macroprudential policies. The presence of diverse informants is essential for validating the transmission mechanisms of geopolitical impacts from upstream to downstream and for evaluating the effectiveness of digital safety belts in a balanced manner. The Primary data collection process was carried out through a series of in-depth online and offline interviews conducted independently. All conversations were digitally recorded with the informant's written consent and then transcribed word for word repeatedly to avoid misinterpretation of meaning. Researchers also conducted source triangulation by collecting the latest financial report documents and central bank regulations as secondary data to support the interview results.

The data analysis technique used applies the interactive analysis model of Miles, Huberman, and Saldaña, which consists of three main interconnected stages (Miles et al., 2020). This qualitative analysis model was applied because it is very effective in reducing hundreds of pages of dense interview transcripts into systematic and easy-to-understand clusters of conceptual themes. Researchers need this technique to directly link informants' practical narratives with Oil Digital Sharia theory, thereby generating conclusions with high scientific credibility. The processing process began with data reduction in the form of open coding of each sentence of the interview transcript to filter information relevant to oil volatility and governance. The coded data is then presented in the form of a narrative matrix that flows completely to clearly show the relationship patterns between digital agility variables.

In the final stage, researchers concloude and verify findings through member checking techniques with informants to ensure the objectivity of data interpretation before finalizing the results.

RESULT AND DISCUSSION

Transmission of Geopolitical Impacts from Upstream to Downstream

The main findings from the in-depth interviews confirm that the transmission of the impact of the geopolitical crisis operates from upstream to downstream systematically in damaging the quality of global Islamic banking assets. The upstream channel began when the armed conflict between Iran and Israel triggered international sanctions from the United States that directly disrupted regional currency stability and global energy supplies. This supply disruption has driven global oil prices up sharply, creating hyperinflationary pressures domestically in trading partner countries. Inflation exceeding the three percent limit doubles the corporate operating cost structure, thereby squeezing profit margins in the real sector. Entering the downstream sector, declining customer financial performance transformed productive financing into non-performing financing and triggered a significant spike in the non-performing financing ratio. Through this linear flow, international political shocks have been proven to successfully convert global geopolitical risks into a significant decline in domestic Islamic banking liquidity.

Table 1. Thematic Findings of Risk Path Analysis and Sharia Banking Mitigation Mechanisms

Upstream Geopolitical Indicators	Macroeconomic Transmission Channels	Downstream Impact of Islamic Banking	ODS (Risk Reduction) Strategic Mediation
Armed conflict between Iran, Israel and the United States	Global crude oil price shocks and domestic inflation surge above three percent	The surge in the ratio of non-performing financing and the increase in displaced commercial risk	Implementation of artificial intelligence-based digital agility and enforcement of sharia governance through compliance audits by financial experts

Source: Interviews processed, 2026

Mediation of the Dual Safety Belt of Digital Agility and Sharia Governance

Key informants stated that the resilience of Islamic banking during the 2026 geopolitical crisis did not occur automatically but was actively mediated by a double safety belt in the form of digital agility and Islamic governance. The existence of digital technology and strict oversight by the Sharia Board is essential to curb cost overruns and prevent management from engaging in high-risk speculative investments. Financial technology plays a role in cutting through the physical bureaucracy that is paralyzed by conflict, while the supervisory board monitors the

compliance of investment portfolios to ensure they remain within the real corridor. The internal strengthening process is carried out by applying artificial intelligence algorithms to precisely assess microcredit scores amid market uncertainty. The Sharia Supervisory Board then conducts periodic operational audits to ensure there are no *gharar* elements in the digital banking transactions launched. By integrating digital early warning systems and adaptive fatwas, Islamic banking is able to maintain depositor confidence and reduce displaced commercial risk.

DISCUSSION

A comprehensive analysis of the interview results provides a clear summary that Islamic banking is able to demonstrate strong structural resilience despite being amidst extreme geopolitical volatility until the end of 2026(Fianto & Ibrahim, 2025). This resilience stems from the core business model of Islamic banking, which prohibits harmful derivative practices and limits asset exposure to the speculative real sector (Aysan & Hersi, 2024). However, the industry continues to face serious challenges in the form of declining profit margins due to a surge in capital costs driven by emergency fund withdrawals by customers (Alhalboni & Baldwin, 2025). This capital withdrawal phenomenon was successfully anticipated by strengthening core capital that exceeded international minimum standards (Ding et al., 2023). In general, this summary shows that the combination of profit-sharing instruments and disciplined capital reserves is the main foundation for the bank's business continuity (Mateev et al., 2022).

Contextualization of the phenomenon up to the developments at the end of 2026 shows that there has been a change in the operational landscape, which has forced Islamic banking to operate in a fully digital ecosystem due to international political fragmentation (Suhartini, 2025). The increasingly widespread financial embargo policy throughout 2026 has severely limited access to Western banking clearing networks for financial institutions in conflict areas (Martínez-Galán, 2021). This emergency has accelerated the implementation of branchless digital banking as a strategy to save bank operations and maintain customer connections (Al Khassawneh, 2024). In Southeast Asia, this transformation policy has received full support from central banks through adaptive digital banking regulations. Thus, placing the crisis case in the context of 2026 proves that digitalization is no longer just a service innovation but an absolute requirement for the existential defense of financial institutions (Suleman et al., 2025).

Conceptual interpretation of the interview data confirms that the ODS framework is a new theoretical foundation that successfully explains the dynamic interaction between energy shocks and banks' internal defense capacities (Daoud & Kammoun, 2024). The ODS model rejects the old assumption that the stability of Islamic banking is static and automatically innate to religious principles alone (Mimoun, 2021). The success in navigating the crisis is interpreted as the result of

managerial engineering that marries the agility of artificial intelligence with Islamic legal ethics (Alsaghir, 2025). FinTech acts as a technical component that radically cuts customer operational transaction costs. Meanwhile, the Sharia supervisory board acts as an ethical steering committee that protects the financing portfolio from moral hazard traps. Through this interpretation, the ODS model positions technology and institutional spirituality as two complementary pillars in strengthening financial resilience (Othman et al., 2024).

A deeper understanding of the informants' narratives indicates a shift in leadership paradigms, with Islamic bank managers now prioritizing short-term liquidity security over aggressive asset growth (Zaiane & Moussa, 2021). Management recognizes that in wartime conditions, the threat of displaced commercial risk is far more dangerous than conventional bad debt risk because it can trigger mass bankruptcies within days (Rouetbi et al., 2023). This psychological awareness encourages directors to voluntarily allocate a portion of shareholder profits to a profit-matching reserve to maintain competitive customer returns. In addition, the Sharia Supervisory Board has also begun expanding its functions towards digital *fiqh* to formulate fatwas on cyber consumer protection (Alsaghir, 2025). Understanding these behavioral aspects shows that the resilience of Islamic banking is greatly influenced by the level of risk literacy and ethical policies of managers.

Comparison of the results of this study with previous studies shows significant differences while providing an important scientific contribution to the international risk management literature (Didwania & Garg, 2025). While previous research stated that Islamic banking was absolutely immune to crises, this finding corrects that view by revealing the vulnerability of assets to high inflation above three percent (Alalmai, 2025; Aysan & Hersi, 2024). This study contributes to filling an academic gap by integrating financial expertise in Islamic governance variables into quantitative mitigation models that were previously neglected (Boulanouar et al., 2026; Srairi, 2024). The results of this analysis also complement research on the Gulf region by incorporating contextual data from Southeast Asia, which has unique cyber risk characteristics (Alsaghir, 2025; Suhartini, 2025). This theoretical contribution successfully broadens the scope of Sharia compliance theory from merely formal legal aspects to measurable strategic adaptability (Sueb et al., 2022).

The short-term strategic action plan requires Islamic banking to immediately inject additional capital into cybersecurity infrastructure to anticipate digital attacks during geopolitical conflicts. Management should collaborate with national fatwa authorities to design cross-currency hedging instruments or sharia hedging that are sensitive to sudden devaluations. At the external level, central banks are advised to develop anticyclical macroprudential guidelines that provide special liquidity relief for Islamic banks committed to financing the social sector. The Sharia Supervisory Board should also be required to undergo periodic digital financial literacy certification to ensure the effective operational auditing of the algorithm. Through

the execution of this integrated action plan, the Islamic banking industry will be fully prepared to face the uncertainties of the global economic order.

CONCLUSION

This research successfully concluded that the financial resilience of global Islamic banking in facing the turmoil of the geopolitical crisis between Iran, Israel, and the United States that lasted until the end of 2026 did not occur automatically but was actively constructed through the integrated framework of Oil Digital Sharia. The upstream risk transmission channel has been shown to move linearly from military conflict to energy commodity volatility and a surge in domestic inflation above three percent, ultimately reducing the real sector's repayment capacity and triggering displaced commercial risk. However, these damaging impacts can be effectively mitigated by strategic mediation of a double safety belt that combines the agility of digital financial systems with the rigor of independent audits by a Sharia supervisory board with in-depth expertise in the financial sector. Therefore, the synergy between the adoption of artificial intelligence and the enforcement of the principle of *maslahah* becomes a new parameter that determines the level of resilience of the contemporary Islamic banking industry.

This qualitative study has inherent limitations in terms of generalization due to the nature of its primary data collection, which relies on in-depth interviews with key informants without large-scale quantitative econometric testing. The key informants participating in this study were predominantly experts and practitioners from Islamic banking jurisdictions, so the variation in institutional responses across Africa or South Asia was not evenly represented. Furthermore, the analysis of digital agility in this study is limited to the transition period at the end of 2026, so it is unable to capture the long-term impact of the ever-evolving risks of cybercrime. These limitations require caution in applying the ODS model blueprint to countries with varying levels of financial market depth and banking market concentration.

Future research agendas are highly recommended to expand the theoretical conceptual framework of Oil Digital Sharia by using a mixed methods approach that combines verbal interview data and quantitative panel data regression analysis. Future researchers are advised to empirically test the direct influence of the international geopolitical risk index and oil price volatility on the capital adequacy ratio using the generalized method of moments. The scope of the research area also needs to be expanded by conducting a cross-jurisdictional comparative study between full Islamic banking and Islamic business units in energy importing countries. Finally, future studies should explore the formulation of digitalized sharia hedging instruments and the development of *fiqh al-raqmiyah* compliance metrics to mitigate moral hazard gaps in modern financial transactions.

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