

Analysis in *Fintech* : Measuring the Relevance of Its Services With the Principles of Islamic Economic Law

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Abstract

This study examines the relevance of financial technology (*Fintech*) services with the principles of Islamic economic law. Using a literature review method, the research collects data from various sources to explore the compliance of *Fintech* services with sharia principles, particularly in the context of Indonesia, a predominantly Muslim country. The findings indicate that *Fintech* adhering to sharia principles, such as avoiding usury (*riba*) and implementing ethical financial practices, plays a significant role in supporting the growth of the sharia financial market. Furthermore, sharia-compliant *Fintech* offers economic, financial, and social benefits by promoting transparency, fairness, and integrity in financial transactions. However, challenges remain, such as the complexity of integrating sharia principles into *Fintech* business models and a lack of comprehensive regulatory frameworks. The research underscores the importance of further developing sharia-compliant *Fintech* to meet the needs of Muslim consumers and enhance the Islamic financial ecosystem in Indonesia.

1. Introduction

The rapid growth of the financial technology or *Fintech industry* in recent years has brought significant changes to the global economic landscape. *Fintech* has provided faster, more efficient and more accessible financial solutions for individuals and companies. ¹Throughout these developments, the world has witnessed a significant increase in interest in financial practices that comply with the principles of Islamic economic law. This is due to increased awareness and demand from Muslim consumers who want to live their financial lives in accordance with religious values. ²Therefore, it is important to understand to what extent *Fintech* can comply with the principles of Islamic economic law and to what extent it is relevant in

this context. According to data that Indonesia as Wrong one country with amount *Fintech* the most with number of 375 *Fintechs* as of 2021 .³ Available data shows that the *Fintech sector* continues to grow globally, covering a variety of services ranging from sharia financing to sustainable investments that comply with Islamic economic laws. For example, the growth of the global Islamic financial market has reached hundreds of millions in a month has been obtained by a number of *Fintech* is well-known in Indonesia , and sharia *Fintech launches* are increasingly happening in various countries. However, major challenges remain in ensuring that these services comply with sharia principles, prompting the need for further research.⁴

¹Imanuel Adhitya Wulanata Christmastianto, "Swot Analysis of Financial Technology Implementation on the Quality of Banking Services in Indonesia", (Journal of Islamic Economics and Business, Vol. 20, No. 1, April 2017)

²Muhammad Afdi Nizar, Financial Technology (*Fintech*): Concept and Implementation in Indonesia, Warta Fiskal, (edition 5/2017)

³Simon Iqbal Fahlevi, The Role of Financial Technology in Indonesia . (Journal of the Indonesian Financial and Business Forum (FKBI), VI, 2017)

⁴Muhammad Afdi Nizar, Financial Technology (*Fintech*): Concept and Implementation in Indonesia, (Fiscal Warta, edition 5/2017)



Normative studies are an important basis for this research. The principles of Islamic economic law involving concepts such as the prohibition of *riba* (usury), the sharing of risks and profits, and business ethics, require in-depth understanding to evaluate the relevance of *Fintech* in this context. An in-depth understanding of the principles of Islamic economic law will help identify non-conformities and potential improvements in existing *Fintech services*. Even though there have been positive developments in *Fintech offerings* that comply with Islamic economic law, there are still problems being faced. Some *Fintechs* may not fully comply with these principles, or there may even be a lack of clarity in their practices. Therefore, more in-depth research is needed to identify these problems and find adequate solutions.

The main objective of this research is to conduct a comprehensive analysis of *Fintechs* with a focus on their compliance with the principles of Islamic economic law. Through this research, we aim to measure the relevance of *Fintech services* to the principles of Islamic economic law, identify existing problems, and contribute to a better understanding of the extent to which *Fintechs* can support the application of these principles in their business practices. It is hoped that this research will provide guidance for the *Fintech industry* in improving their services to be more in line with the principles of Islamic economic law and the needs of Muslim consumers.

2. Literature Review

The adoption of financial technology (*fintech*) has significantly impacted the banking industry in Indonesia, enhancing the quality of services and promoting financial inclusion, particularly for micro, small, and medium enterprises (MSMEs). This literature review examines the development of *fintech*, its role in financial services, and its implications for Islamic banking in Indonesia.

2.1 SWOT Analysis of Financial Technology Implementation in Indonesia

Immanuel Adhitya Wulanata Christmastianto (2017) conducted a SWOT analysis of *fintech* implementation in Indonesia's banking sector. The study highlights that *fintech* presents both opportunities and challenges for improving service quality. On the one hand, *fintech* innovations have enhanced operational efficiency and customer experiences. However, regulatory and cybersecurity risks remain critical challenges. The adoption of *fintech* must balance innovation with risk mitigation to ensure sustainable growth in the banking sector.

2.2 Financial Technology: Concept and Implementation in Indonesia

Muhammad Afdi Nizar (2017) provided a comprehensive review of *fintech* concepts and their implementation in Indonesia. Nizar emphasized that *fintech* fosters increased accessibility to financial services, particularly for underserved communities. However, the legal and regulatory frameworks governing *fintech* still need development to cope with the rapid technological advancements. A well-structured regulatory environment is essential for ensuring the secure growth of *fintech*, particularly in the sharia-compliant finance sector, which is gaining traction in Indonesia.

2.3 The Role of Financial Technology in Indonesia

Simon Iqbal Fahlevi (2017) explored the broader role of *fintech* in Indonesia's financial ecosystem. Fahlevi argued that *fintech* acts as a disruptive force, promoting financial inclusion and reducing operational costs in the banking sector. The author also highlighted *fintech's* potential to enhance transparency and accountability in financial transactions, aligning with the ethical principles of Islamic finance. The rapid growth of *fintech* startups in Indonesia has created new opportunities for businesses and consumers alike.

2.4 The Role of Fintech in Increasing Financial Inclusion in MSMEs

Irma Muzdalifa (2018) focused on the impact of *fintech* on financial inclusion for



MSMEs in Indonesia. The study, framed within a sharia financial approach, emphasized that fintech helps bridge the gap between conventional and Islamic financial services, offering innovative solutions to enhance MSME access to capital. This is particularly relevant for sharia-compliant fintech, which adheres to Islamic principles and provides ethical financial solutions to entrepreneurs.

2.5 Digital Financial Services in the Kotaku Program

Herdiana's (2016) research on digital financial services in Indonesia highlighted the potential applications of fintech in various government programs, such as the Kotaku Program. The study suggested that fintech could play a critical role in enhancing the financial inclusion of low-income populations, particularly in urban slum areas. The integration of fintech into public programs supports sustainable development by providing broader access to essential financial services.

2.6 Sharia Fintech and Family Finances

Mukhlisin (2019) discussed the role of sharia fintech in managing family finances. The study emphasized the importance of financial literacy and ethical financial management, in line with Islamic teachings. Mukhlisin argued that sharia fintech provides a platform for families to manage their finances in accordance with Islamic principles, ensuring that financial activities are both transparent and responsible.

2.7 Digital Economy and E-Tailing in Indonesia

Muhammad Ilham Ainul Yaqin (2021) examined the rise of the digital economy and its impact on e-tailing (electronic retailing) in Indonesia. Yaqin's study pointed out that fintech is integral to the growth of e-commerce by facilitating secure, seamless, and efficient online transactions. This intersection of fintech and e-commerce has broadened consumer access to

goods and services, while also supporting the growth of digital retail markets.

2.8 Sharia Economic Law and Fintech

Abdul (2021) explored the intersection of sharia economic law and fintech, discussing how fintech innovations must align with Islamic legal frameworks. The study argued that fintech services must not only meet regulatory requirements but also comply with Islamic principles to gain broader acceptance in Muslim-majority countries like Indonesia. Abdul's analysis provides insight into the future development of fintech within the framework of sharia law.

3. Research Methods

Method applied is Library Research, which is specifically related to the normative analysis of Islamic law. This research is based on a type of library research data which involves several types of books and scientific journals that are relevant to the research topic.⁵ The *Library Research* research method is used to collect and analyze information and understanding contained in relevant literature.

In the context of this research, this literature research allows researchers to explore, identify, and summarize the existing understanding of the principles of Islamic economic law and how they can be applied in the context of *Fintech services*. Research data was obtained from various literary sources, including books discussing Islamic economic law, sharia financial guides, scientific journals reviewing current issues in *Fintech* and Islamic law, as well as other relevant publications. These sources are used to obtain a strong theoretical foundation in carrying out normative analysis of Islamic law.

4. Research Result

This section discusses the relevance of fintech services with the principles of Islamic economic law in Indonesia. Several research

⁵Mestika Zed, *Library Research Methods*, (Jakarta: Indonesian Obor Foundation, 2021)



indicators were used to measure this relevance, including:

4.1 Sharia Compliance Principle

Sharia compliance refers to the extent to which a product, service, or financial operation adheres to the principles of Islamic law, or Sharia. These principles are a set of ethical rules and guidelines derived from the Quran and Hadith that govern all aspects of a Muslim's life, including financial and economic activities. In the context of fintech, Sharia compliance refers to how well fintech services align with Islamic economic law, which encompasses ethical behavior, justice, and adherence to Sharia rules. These rules include the prohibition of usury (riba), avoiding investment in haram (forbidden) sectors, ensuring fair distribution of risks and profits, and consideration of social and environmental impacts.

If fintech services comply with these principles, they are deemed in accordance with Islamic economic law. This compliance is crucial as it ensures ethical management of funds and investments, prevents harm to consumers or society, and promotes sustainable economic growth aligned with Sharia values. Therefore, evaluating the compliance of fintech with Sharia principles is essential in meeting the needs of the Muslim community, who are increasingly conscious of Islamic economic laws.

4.2 Challenges in Sharia Compliance

Despite the rapid growth of fintech in Indonesia, many fintech companies still struggle to fully comply with both legal and Sharia principles in their operations. Several factors contribute to this:

- a. Lack of Understanding:** Many fintech companies are founded by entrepreneurs and technology developers who may lack sufficient knowledge of Islamic economic law. As a result, Sharia principles are often not prioritized in product development.
- b. Complexity of Implementation:** Implementing Sharia principles in all aspects of fintech, such as financing, risk management, and investment, is complex and

may require significant operational adjustments.

- c. Regulatory Gaps:** There is a lack of stringent regulations regarding Sharia compliance in fintech. Without clear guidelines, some companies may overlook Islamic principles to focus on business growth.
- d. Market Pressures:** Global market competition may discourage fintech companies from fully adhering to Sharia principles, as doing so could limit their access to non-Muslim markets. These challenges indicate that fintech companies in Indonesia face significant obstacles in achieving full Sharia compliance, which requires innovation and strong governance.

4.3 Economic and Financial Benefits

Fintech services that comply with Islamic economic law provide significant economic and financial benefits to the Muslim community. These include:

- a. Easier Access to Sharia-Compliant Financing:** Fintech provides Muslim individuals and businesses with easier access to Sharia-compliant funding, such as interest-free financing, which aligns with Islamic economic law.
- b. Sustainable Investment Opportunities:** Sharia-compliant fintech services open opportunities for investments that adhere to ethical and moral principles, benefiting both investors and society.
- c. Risk Reduction:** Sharia principles emphasize transparency, fair transactions, and balanced risk distribution, which can protect consumers and investors from unethical practices, such as usury and excessive speculation. Compliance with Sharia principles not only enhances ethical financial practices but also provides sustainable business opportunities and broader economic benefits for the Muslim community.

4.4 Increasing Consumer Awareness



Research also reveals that Sharia-compliant fintech services have increased consumer awareness about the importance of aligning financial practices with Islamic principles. This growth in awareness has led to:

- a. **Higher Demand for Sharia-Compliant Services:** Consumers who are more conscious of Sharia principles seek financial products that reflect these values, such as interest-free financing and ethical investments.
- b. **Encouragement for Innovation:** As demand increases, fintech companies are motivated to innovate and develop services that better meet the needs of the Muslim community, fostering a more diverse fintech ecosystem.
- c. **Educational Efforts:** Fintech companies that adhere to Sharia principles often take on the role of educating consumers about Islamic finance, helping them understand how to align their financial decisions with their religious beliefs.

4.5 The Importance of Sharia Compliance for Fintech Companies in Indonesia

In Indonesia, where the majority of the population is Muslim, fintech companies that comply with Islamic economic principles are building trust and credibility with consumers. This compliance allows for:

- a. **Easier Access to Financial Services:** Sharia-compliant fintech services provide Muslims with better alternatives to conventional financial institutions.
- b. **Growth of the Sharia Finance Market:** Implementing Sharia principles helps fintech companies contribute to the expansion of the Islamic finance market in Indonesia.
- c. **Sustainable Business Models:** By adhering to Sharia principles, fintech companies create ethical business models that consider social justice and environmental impacts, in line with Islamic values.

4.6 Quranic Reference and Islamic Jurisprudence

The relevance of fintech to Sharia principles is reflected in Surah Al-Baqarah, verse 185:

شَهْرُ رَمَضَانَ الَّذِي أُنزِلَ فِيهِ الْقُرْآنُ
هُدًى لِّلنَّاسِ وَبَيِّنَاتٍ مِّنَ الْهُدَى وَالْفُرْقَانِ

“Allah desires ease for you, and does not desire hardship for you. You must complete the required days and glorify Allah for His guidance, so that you may be grateful.” This verse emphasizes simplicity, ease, and guidance, which can be applied to fintech practices that strive to provide clear and accessible financial services in accordance with Sharia. Fintech companies adhering to Sharia principles aim to avoid complexities that may confuse consumers, and instead, offer transparent, ethical services aligned with Islamic values.

5. Conclusion

5.1 Conclusion

The analysis of fintech services through the lens of Islamic economic law principles reveals that sharia-compliant fintech holds a valuable role in Indonesia’s predominantly Muslim society. Fintech practices that align with sharia principles demonstrate commitment to ethical values such as avoiding riba (usury), enhancing transparency, and fostering fair and socially responsible financial practices. This alignment not only fulfills the financial needs of the Muslim community but also actively contributes to the expansion of Indonesia’s Islamic financial market. Sharia-compliant fintech services strengthen consumer trust and support the ethical, economic, and social growth of Indonesia’s Islamic finance sector. The relevance of these practices is further underscored by the increasing demand for sharia-aligned financial options, which supports a sustainable and integrated sharia finance ecosystem within the country.

5.2 Recommendations:

1. **Regulatory Development:** To further advance sharia-compliant fintech, policymakers should establish specific regulatory frameworks that address the



unique needs and challenges of sharia-compliant fintech. Clear and comprehensive guidelines would aid fintech companies in upholding Islamic principles while reducing operational and legal uncertainties.

2. **Educational Initiatives:** Increasing educational efforts focused on Islamic financial principles would benefit both consumers and fintech providers. Educating entrepreneurs and the public about sharia-compliant practices can bridge knowledge gaps and promote wider acceptance and adherence to these standards.
3. **Integration of Sharia Principles in Business Models:** Fintech providers should strive to fully integrate sharia principles into their business operations, with an emphasis on ethical financing, transparency, and risk-sharing. Such alignment with Islamic ethics can enhance consumer loyalty and strengthen the company's reputation for ethical business practices.
4. **Innovation in Sharia-Compliant Products:** Fintech companies should expand their range of sharia-compliant products to better meet consumer needs. This could include ethical investments, interest-free financing options, and financial products that support social and environmental causes, in alignment with Islamic values.
5. **Strengthening Cybersecurity Measures:** Given fintech's digital nature, companies should prioritize robust cybersecurity to protect consumer data and transaction integrity. Strong cybersecurity measures will reinforce consumer trust and align with ethical standards required for sharia compliance.
6. **Collaboration with Islamic Scholars:** Consulting with Islamic scholars and experts in Islamic finance is essential for fintech providers to ensure products and services fully comply with sharia standards. Such collaborations can help address compliance challenges and improve adherence to Islamic law.

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