

Integration of fiqh and digital finance: difficulties and potential in the Islamic Fintech Era

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Abstract

The advancement of digital financial technology (fintech) poses both obstacles and significant potential for the integration of fiqh with the contemporary financial system, particularly within the realm of Islamic banking. Sharia fintech is a promising innovation aimed at enhancing financial access, promoting financial inclusion for the ummah, and bolstering the economic standing of Muslims, all while adhering to sharia values such as fairness, transparency, and the prohibition of usury. This integration is inherently linked to obstacles, including the constraints of rules pertaining to Islamic fintech, the insufficient comprehension of contemporary fiqh among industry stakeholders, and the necessity for new fatwas that are responsive to technological advancements. On the other hand, there is a chance to improve by developing digital Islamic financial products, such as sharia-compliant crowdfunding, halal peer-to-peer lending, and smart contracts based on fiqh agreements. This paper thoroughly examines the interplay between fiqh and financial technology while presenting strategic methods for establishing an innovative and sharia-compliant fintech sector. The collaboration among scholars, regulators, and industry stakeholders is anticipated to yield a viable solution for integrating fiqh and digital finance in response to the expanding global digital economy.

Keyword: digital finance, integration of fiqh, sharia-compliant fintech

Introduction

During the era of Industry 4.0, marked by digitalization across several facets of life, the banking sector has experienced the most profound transformation. Advancements in financial technology, sometimes referred to as fintech, have introduced convenience and efficiency in financial transactions, investments, and fund management. Amidst these swift advancements,

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there exists an imperative to align these technological innovations with Islamic sharia principles, particularly within Muslim societies seeking a financial system that is both efficient and inclusive while adhering to religious doctrines. Consequently, the focused attention from many stakeholders, including academics, scholars, regulators, and business participants. Fiqh, as a scientific discipline within Islam that governs human interactions with Allah and others, plays a pivotal role in ascertaining the halal or haram status of economic practices.

Riba, gharar (uncertainty), and maysir (speculation). Nonetheless, the swift advancement of financial technology frequently lacks corresponding fatwas or fiqh rules, resulting in numerous obstacles throughout its application. Challenges include insufficient contemporary fiqh muamalah literacy among fintech developers, regulatory deficiencies that fail to support sharia innovation, and inadequate legal and technological infrastructure to guarantee comprehensive sharia compliance within the digital ecosystem.

Conversely, the advancement of sharia fintech offers significant potential to enhance the economy of the populace. Sharia fintech possesses the capacity to significantly enhance financial inclusion, particularly for individuals underserved by traditional financial services. Technology-driven financial instruments, including peer-to-peer lending, sharia-compliant crowdfunding, and smart contracts associated with sharia agreements such as murabahah, mudharabah, and wakalah, exemplify the integration of technology with Islamic principles [1]. Moreover, technological innovations like blockchain and artificial intelligence (AI) can be utilized to establish a more transparent, efficient, and validated Islamic financial system. Therefore, it is essential to explore the integration of fiqh inside the digital financial system and to provide a legal, technological, and institutional framework that fosters the sustainability of Islamic fintech. An interdisciplinary approach encompassing fiqh, economics, information technology, and law is essential for addressing issues and maximizing potential in the fintech era. This presentation will thoroughly examine these dynamics, emphasizing the challenges, opportunities, and tactics necessary to establish a digital financial system aligned with Islamic principles.

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Methods

This study employs a qualitative methodology, utilizing library research as the primary tool for data collection and analysis. The literature review technique was selected due to its alignment with the conceptual and normative qualities of the topic, specifically the integration of fiqh and digital money within the framework of sharia fintech development. Literature studies enable academics to examine, analyze, and understand diverse sources of pertinent literature from both the standpoint of Islamic fiqh and contemporary financial technology. The the Financial Services Authority, Bank Indonesia, the National Sharia Council of the Indonesian Ulema Council (DSNUI), and Islamic financial institutions. This research also employs digital sources, including e-journals, official websites of Islamic financial institutions, and scientific platforms that offer current information on fintech trends and Islamic financial regulation.

The collected data was subsequently analyzed using a descriptive-qualitative method with a thematic approach, specifically categorizing information according to principal such as fiqh challenges in addressing fintech, digitalization opportunities in the advancement of Islamic financial products, and strategies for incorporating Islamic law into digital economy practices. This research seeks to delineate numerous conceptual and practical challenges while providing constructive suggestions or frameworks for the future growth of Islamic fintech. The data's validity is enhanced through cross-source comparisons and the incorporation of expert judgments in fiqh muamalah and financial technology. This strategy aims to yield research results that will scientifically and practically integrate Islamic ideals with the demands of the contemporary digital economy.

Discussion and results

The advancement of digital technology has significantly disrupted the worldwide financial environment, including the Islamic economic system. The emergence of sharia financial technology (fintech) exemplifies the endeavors of Muslims to align technological advancements with the principles of fiqh muamalah [2]. This integration is complicated, presenting significant theoretical, normative, and practical challenges, yet it also offers

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substantial prospects for the people's economy. The primary problem in incorporating fiqh into the digital financial system is ensuring that all digital transactions and systems adhere to sharia standards. In this environment, fiqh must be dynamic. It must be dynamically interpreted using the sharia maqashid method to maintain relevance and provide solutions to contemporary developments, of ushul fiqh in addressing the issues of sharia compliance inside digital financial institutions [3]. They assert that numerous contemporary fintech functionalities, like peer-to-peer lending, digital wallets, and smart contracts, function within jurisdictions that have not been comprehensively examined in traditional fiqh literature. Consequently, the methodology of legal istinbat utilizing the maqashid and qiyas approach is crucial for examining new legislation within the digital realm.

Alongside methodological obstacles, regulatory issues also exist. emphasizing the inadequate execution of the Sharia Economic Law Compilation in addressing the complexities of the modern economy. Protracted rules and insufficient responsiveness to technology advancements have resulted in a convergence between the normative dimensions of sharia and contemporary economic practices. This complicates the ability of Islamic financial institutions to uphold compliance and the integrity of their transactions in the digital domain. Consumer trust in sharia fintech remains a significant barrier. indicated that the use of internet loans that contravene sharia principles is widespread throughout the Muslim community, with some entities carelessly utilizing sharia designations. The public's lack of awareness regarding the significant distinctions between conventional and sharia financial systems complicates efforts to enhance Islamic financial education and literacy.

Despite encountering intricate hurdles, sharia fintech possesses significant potential to advance Islamic financial inclusion in the digital era. emphasized that a significant opportunity for sharia fintech lies in its capacity to serve the unbanked and underbanked populations in Indonesia. Sharia fintech employs technologies like blockchain, big data, and smart contracts to provide efficient, transparent, and sharia-compliant goods, including digital qard hasan, waqf crowdfunding, and e-zakat [4]. It further underscored that Islamic banking must sustain its viability by adopting technological innovation. The benefits of transparency and auditability in the digital system align closely with the notion of hisbah in Islam. Consequently, sharia fintech has the potential to serve as a more expansive and efficacious conduit for Islamic economic da'wah. The strategic function of the Islamic economy in facilitating sustainable development

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via digital platforms. Islamic fintech may bolster a community-oriented economy, promote ethical business practices, and enhance microeconomic empowerment more equitably, particularly in rural regions.

Integrating fiqh with the digital financial system necessitates multidisciplinary collaboration. It is essential that fiqh muamalah be comprehended contextually and integrated into the comprehensive fintech business model, encompassing contract structures, profit schemes, operational systems, and financial reporting. Consequently, collaboration is essential among scholars, regulators, academics, and technological practitioners [5]. An essential strategy in this context is the formation of a Shariah Advisory Board within each fintech company to oversee and issue fatwas about its products and activities. Furthermore, an Islamic economic education curriculum incorporating digital capabilities and financial technology is essential to cultivate human resources capable of integrating fiqh values with technological innovation. to facilitate collective ijihad in addressing contemporary concerns, including sharia-compliant cryptocurrency, artificial intelligence in financial decision-making, and waqf-based non-fungible tokens (NFTs). This forum will serve as a conduit between tradition and modernization in Islamic jurisprudence.

The amalgamation of fiqh and digital finance in addressing the Islamic fintech era is a dynamic process necessitating critical and adaptive thought. The issues encountered encompass elements of the Islamic legal system, inadequate laws, and insufficient public literacy. Nonetheless, the potential presented is significantly more substantial, encompassing the enhancement of Islamic financial inclusion, the fortification of the people's economy, and the digitization of sharia-compliant financial services. By working together and using a relevant understanding of Islamic law, sharia fintech can be a key part of building a modern, fair, and lasting Islamic economic system. The advancement of digital technology in finance has led to numerous advances in online financial services that are more efficient, inclusive, and tailored to individual needs. Fintech (financial technology) represents a contemporary economic shift that emphasizes transaction efficiency and service expeditiousness. In the realm of Islamic finance, fintech presents both a problem and a significant potential to cultivate a more competitive and adaptive Islamic finance ecosystem. This development also presents basic issues concerning the compatibility of financial technology with the principles of fiqh muamalah in Islam. The urgency of combining fiqh with digital money is highlighted here..

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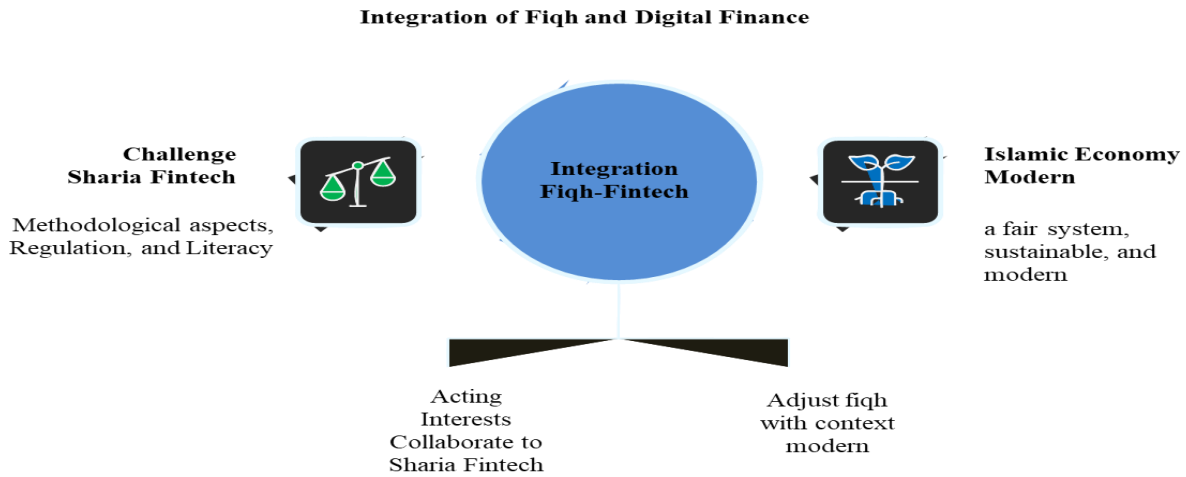


Figure: **Integration of Fiqh and Digital Finance**

Theoretically, a primary issue of this integration arises from the constraints of classical fiqh in addressing novel contract forms that have developed from technology advancements. Numerous innovative fintech initiatives, like peer-to-peer sharia lending, qard-based e-wallets, waqf crowdfunding, and blockchain-based smart contracts, have not been fully examined in traditional fiqh literature [6]. Ushul fiqh the techniques of qiyas, istihsan, and istislah. At the normative level, national regulations are not entirely attuned to the dynamics of the sharia-compliant digital economy. The compilation of Sharia Economic Law, serving as a judicial and normative reference for religious courts and Islamic financial institutions in Indonesia, has yet to provide a comprehensive accommodation for digital schemes in its transactions. indicating a disparity between content and digital behaviors within the domain. For instance, application-based transactions lack explicit definition within their legal framework, resulting in varied interpretations among stakeholders and regulators.

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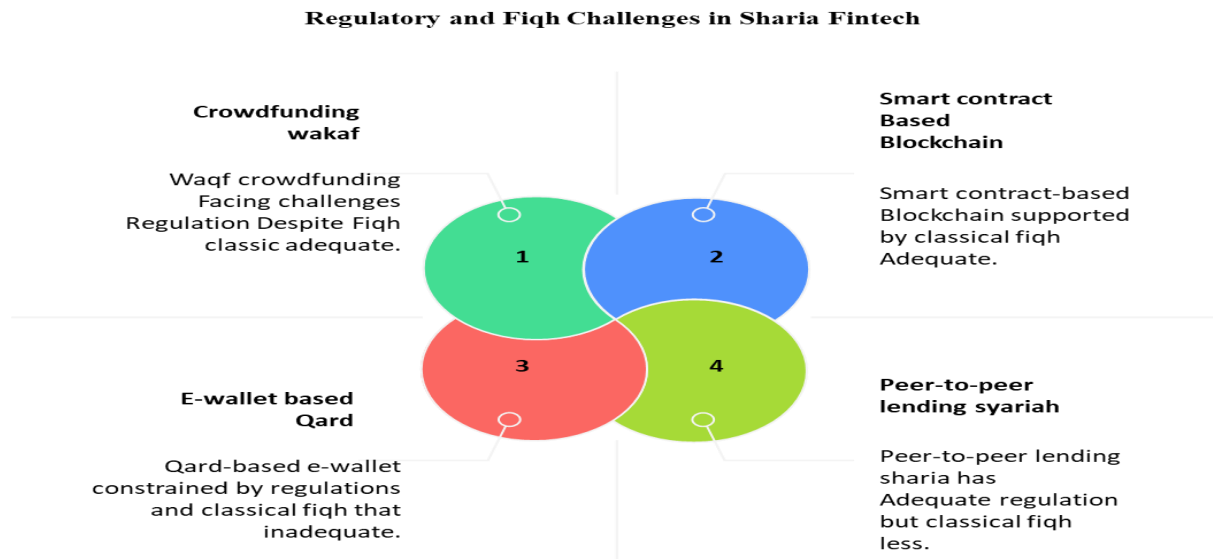


Figure: Regulatory and Fiqh Challenges in Sharia Fintech

Alongside the National Sharia Council, the Indonesian Ulema Council (DSN-MUI) serves a crucial function in reconciling fiqh principles with contemporary digital financial practices. DSN-MUI serves as a national fatwa authority, offering definitive guidance on sharia law concerning Islamic financial transaction products and models. Within the realm of sharia fintech, DSN-MUI has promulgated various fatwas serving as principal guidelines, including Fatwa No. 117/DSN-MUI/II/2018 about Information Technology-Based Financing Services in Accordance with Sharia Principles (Sharia Fintech Lending). Fatwa No. about Sharia-compliant Electronic Money (E-money). Fatwa No. 140/DSN-MUI/VII/2021 pertains to Sharia Securities Crowdfunding. These fatwas represent a current ijtihad by DSN-MUI in addressing digital transformation while adhering to the principles of sharia maqashid. The benefit of DSN-MUI lies in its capacity to pragmatically integrate classical fiqh, industrial realities, and maqashid principles. Nonetheless, obstacles persist. The absence of a clear legal framework for the DSN-MUI fatwa, which is regulatory obligatory on all sharia fintech participants, is a significant issue. Numerous finance businesses lack an internal Sharia Supervisory Board and utilize Sharia labeling without consulting the official fatwa of DSN-MUI.

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Notwithstanding the hurdles, these linkages present significant opportunities. Asserted that sharia fintech possesses the capacity to promote extensive Islamic financial inclusion, particularly for the unbanked and underbanked populations who have not been served by traditional banking services. Technology facilitates economical, rapid, and direct transactions, aligning with the values of ta'awun (assistance) and maslahah (public welfare). Sharia fintech expands prospects for Islamic social innovation, including online zakat, waqf crowdfunding, and qard hasan-based microfinancing. The success of Islamic banking in the digital age is significantly influenced by the capacity to digitize services, enhance public literacy, and foster cross-sector collaboration. It was noted that digitalization in the sharia economy can enhance the concepts of justice and sustainability, particularly in helping halal-based micro, small, and medium companies (MSMEs) [7].

A coordinated strategy among institutions is essential for the optimization of the integration of fiqh and technology within the DSN-MUI and fintech industry. It requires periodic revision to align with the evolution of digital academia. Conversely, DSN-MUI must adopt a more proactive approach in engaging with fintech startups and technology developers to ensure that the issued fatwas effectively address practical demands in the industry. The necessity for technology-driven Islamic economic education is becoming increasingly pressing. Islamic higher education institutions must develop courses that integrate contemporary fiqh muamalah, Islamic financial technology, and digital regulation. It is essential to cultivate human resources capable of concurrently and proficiently integrating the domains of fiqh and technology.

Conclusion

The amalgamation of fiqh and digital finance within the framework of sharia fintech is an indispensable requirement in the age of the Fourth Industrial Revolution and digital disruption. The advancement of financial technology has posed a significant challenge to the normative basis of fiqh muamalah, which has traditionally been both textual and contextual within the economic sphere. The necessity for a novel interpretation of ushul fiqh is imperative to ensure that sharia principles remain pertinent and applicable in a rapidly evolving and intricate digital landscape. Another difficulty, as elucidated, resides in legislation that is not entirely adaptable

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to digital advancements, coupled with inadequate oversight of the enforcement of sharia principles in the various digital financial products available. Conversely, the era of sharia fintech has significant prospects for broadening the accessibility of sharia finance to populations underserved by mainstream financial institutions, as demonstrated. Sharia fintech has the potential to serve as a comprehensive, transparent, and efficient platform for da'wah and Islamic economic education by using technologies such as blockchain, big data, and smart contracts. To optimize this potential, collaboration within sectors is essential: academia, technology professionals, regulators, and scholars must work together to develop an innovative sharia fintech business model grounded in sharia maqashid. The comprehension of muamalah fiqh must evolve with time and contemporary realities while preserving the core principles of justice, integrity, and blessings that underpin Islamic law. Consequently, the efficacy of integrating fiqh and digital finance is not solely contingent upon technological advancements.

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