

Exploring The Role Of Sharia Fintech In Supporting The Islamic Economy In The Era Of Financial Digitalization

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ABSTRACT

Financial digitalization has brought significant changes to the modern economic system through the emergence of various financial technology innovations. In countries with predominantly Muslim populations, sharia fintech has emerged as a digital financial solution that integrates Islamic principles with technological advancement. This study aims to explore the role of sharia fintech in supporting economic growth in the era of financial digitalization and to identify its contributions, opportunities, and challenges. This research employs a qualitative approach through a literature review and descriptive analysis of academic journals, industry reports, and regulations related to sharia fintech and the digital economy. The analytical framework is based on financial inclusion, technological innovation, and maqashid sharia as the foundation of Islamic financial development. The findings indicate that sharia fintech plays a crucial role in enhancing financial inclusion, particularly for underserved communities, and in expanding access to financing for micro, small, and medium enterprises through sharia-compliant digital platforms. Moreover, sharia fintech supports economic stability and growth by offering a more transparent, ethical, and equitable financial system. However, the development of sharia fintech still faces several challenges, including low levels of digital sharia financial literacy, infrastructure limitations, and the need for more adaptive regulations and stronger sharia supervision. Therefore, collaboration among governments, regulators, and industry stakeholders is essential to ensure that sharia fintech can optimally contribute to sustainable economic development in the digital era.

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INTRODUCTION

The development of digital technology has driven major changes in various aspects of life today, including the structure of the global economy and financial system. This change is driven by the emergence of a wave of digitalization that has resulted in innovations in financial technology, known as financial technology or fintech. Fintech is transforming the way people conduct transactions, obtain financing, manage assets, and access other financial services.

Emerging fintech services encompass various subsectors, such as electronic payment systems (digital wallets, QRIS), peer-to-peer lending platforms, automated financial advisors (robo-advisors), and digital-based insurance (insurtech). These changes have had a significant impact not only on the operational efficiency of financial institutions but also on consumer spending patterns and financial preferences. On the one hand, fintech can increase financial access, lower transaction costs, and expedite service processes; on the other hand, this rapid pace of innovation also carries the risk of regulatory uncertainty and challenges in compliance with existing ethical and legal values. Several concrete examples of the application of technology in Islamic finance have begun to emerge and demonstrate significant potential.

The process of integrating fintech and sharia principles faces several crucial challenges, particularly regarding adherence to Islamic law. One key issue is how to ensure that rapid technological developments do not conflict with sharia principles, such as the prohibition of usury (riba), gharar (gharar), and maysir (gambling), while ensuring valid and transparent contracts. In this regard, the maqasid (objectives of sharia) of sharia serve as a crucial normative foundation. The five basic principles of maqasid (protection of religion, life, mind, lineage, and property) can be used as indicators in designing sharia fintech products and systems so that they not only meet formal halal requirements but also make a meaningful contribution. This can bring about significant changes in the way financial companies offer products and services, by providing innovative solutions that are more efficient and more accessible to consumers. 1 In the modern era marked by technological advancements, the financial industry is undergoing significant changes through the implementation of financial technology (Fintech).

This transformation brings significant opportunities as well as new challenges for governments, the financial sector, and consumers. This transformation not only brings significant opportunities for economic growth and improved financial services, but also poses challenges for traditional financial institutions, which must adapt quickly to remain competitive in the digital age. Technological innovations such as blockchain, artificial intelligence (AI), big data, and cloud computing are playing a role in accelerating this change, making financial services faster, more efficient, and more inclusive. The digitization of banking services allows customers to conduct transactions online, increasing convenience and financial inclusion broadly.

This development also drives the automation of processes, such as account opening and identity verification, which are carried out automatically using biometric

technology and document recognition, thereby reducing time and the risk of errors. While fintech innovation offers many benefits, significant challenges remain, particularly in terms of security, regulation, and the readiness of traditional financial institutions to adapt to rapid technological change. A deep understanding of fintech's role in transforming the financial industry is crucial for identifying opportunities and addressing emerging challenges in this digital era.

METHOD

This research uses a qualitative descriptive approach to describe current events in the Islamic Fintech industry. The researcher employed a literature review as the primary method for collecting data on the relationship between Fintech and the Islamic financial sector. The literature review serves as a useful tool for exploring recent developments in the Islamic Fintech world and the challenges faced. This research approach provides a strong foundation for explaining the role of Fintech in the transformation of the Islamic financial sector.

RESULTS AND DISCUSSION

The Concept of Sharia Fintech

The concept of Fintech in the world of Islamic finance reflects a combination of advanced financial technology and financial principles in accordance with Islamic teachings. The presence of Fintech in this sector aims to bring about significant changes in the way financial services are provided in accordance with Sharia law. Islamic teachings contain a number of financial principles, including the prohibition of usury (*riba*), excessive speculation, the obligation of justice, and ethical business practices. Fintech in Islamic finance is important for several reasons. First, financial technology provides easy and fast access to financial services for the public, especially those living in locations difficult to reach by conventional financial institutions.

Implementation can take the following forms:

1. Sharia Peer-to-Peer (P2P) Lending:

Fintech lending/peer-to-peer lending, or online lending, is the provision of financial services. Its purpose is to connect lenders with borrowers to enter into loan agreements in rupiah through a digital platform. Online loans, also known as fintech, are financing services offered by certain providers via the internet. According to Quisto, online loans are defined as a type of loan where applications are made online using a smartphone application, without the need for a physical meeting with the lender..

2. Crowdfunding Syariah

Crowdfunding is a form of fundraising from multiple parties through a participation-based online platform, with the aim of financing registered businesses or projects. This technology helps reduce transaction costs and makes the process more effective and efficient (Mustafida et al., 2021). The term crowdfunding, also known as crowd financing, equity crowdfunding, or

hyperfunding, refers to the practice of raising funds from individuals or groups to support a project or business initiated by another party, usually facilitated through the internet. (Harahap & Dewi, 2020) The current crowdfunding phenomenon is not limited to the business sector but is also closely related to social activities. Due to its significant role, various organizations are contributing to the development of social financing. (Slolekha et al., 2025)

a. Islamic Donation Based Crowdfunding

Islamic Donation-Based Crowdfunding is a model in which donors provide financial assistance to project implementers (SMMEs) to be used for their business purposes without expecting any return. In this model, backers contribute to an activity or project with a social purpose without expecting any return. (Majid & Aditya, n.d.)

b. Crowdfunding Berbasis Penghargaan Islami

This scheme provides funds or assets from the lender to the platform provider, who will purchase the assets. The purchased assets will then be used by MSMEs in their business operations. Under this scheme, MSMEs have the option to purchase or lease the available assets. This scheme is often used by Islamic banks due to its minimal risk. The types of transactions applicable to this scheme are Murabaha and Ijarah.

The Role of Sharia Fintech in Encouraging Sharia Entrepreneurship

Sharia-compliant financing through crowdfunding has become a key innovation in the Sharia Fintech ecosystem. Sharia crowdfunding enables businesses, particularly Sharia-compliant entrepreneurs and MSMEs, to raise funds through collective community participation. Within the framework of Sharia principles, this model offers a solution compliant with Islamic law, where investors or financiers collectively contribute to support projects or businesses with profit sharing in accordance with Sharia principles. Sharia crowdfunding opens up more inclusive access to financing, facilitates the growth of the Sharia-compliant business sector, and provides opportunities for economic participation to a wider community (Novitarani, 2018).

The Sharia Peer-to-Peer (P2P) Lending model is another form of Islamic financing through a digital platform. In Sharia P2P Lending, the Fintech platform provides a platform for borrowers and lenders to interact directly without involving conventional financial institutions. Borrowers in need of financing can connect with lenders willing to provide funds, all in accordance with Sharia principles. Profits are generated through profit sharing, not in the form of interest, which is prohibited in Islam. Sharia P2P Lending provides a faster and easier financing alternative and supports the growth of Sharia-compliant MSMEs (Ulirrahmi, 2023).

With the advent of sharia-compliant financing through Sharia Crowdfunding and Sharia-compliant P2P Lending, Sharia Fintech has become a key driving force in providing financing solutions in accordance with Islamic principles. These innovations not only accommodate the financing needs of sharia-compliant businesses but also shape an inclusive and sustainable financial ecosystem. Technological innovations in fintech

are not only transforming the way financial transactions are conducted but are also a crucial catalyst for encouraging entrepreneurship. Fintech applications and platforms provide digital solutions that simplify business management for entrepreneurs, particularly sharia-compliant entrepreneurs and MSMEs. Through these applications and platforms, entrepreneurs can access various financial services, such as financial management, bookkeeping, and transaction tracking, more efficiently.

Security and sustainability aspects in Sharia Fintech are a primary focus for building trust and maintaining the integrity of the financial ecosystem. Technological innovations that integrate high-level security, such as data encryption and double authentication, protect transactions and customer data. Furthermore, sustainability is a key consideration, with the adoption of environmentally friendly technology and Sharia principles supporting economic and environmental sustainability.

Security and sustainability in Sharia Fintech also encompass transparency in services and operations. Users can track and clearly understand how their data is managed and how Sharia principles are integrated into every transaction. Thus, technological innovation in Sharia Fintech not only provides operational efficiency but also provides a sense of security and sustainability, crucial elements in encouraging entrepreneurship and supporting the growth of Sharia-compliant MSMEs. Through secure and sustainable Fintech applications and platforms, technology becomes an effective tool in opening opportunities and supporting entrepreneurship, while ensuring the sustainability of an inclusive Sharia economy.

Opportunities and Challenges of Sharia Fintech in the Digital Era

Indonesia, as the country with the largest Muslim population in the world, has vast market potential for the development of Islamic economics, an economic system oriented towards the welfare of the community. The growth of the Islamic business and finance sector has shown significant growth, as evidenced by the increasing number of Sharia-based financial institutions, such as Islamic banking institutions, Islamic insurance products (takaful), Sharia-compliant cooperatives, and Sharia capital markets, both completely traditional and utilizing modern technology. According to research on financial literacy conducted by the Financial Services Authority (OJK), nearly 40% of Indonesians still lack direct access to financial or banking services, whether conventional or Sharia-compliant. In 2016, the financial literacy rate was recorded at 8.11%, with an inclusion index reaching 11.6%. This situation indicates significant potential for the growth of Sharia FinTech, provided it adheres to strict Sharia guidelines.

Challenges in Sharia-compliant FinTech services include: the low level of awareness of Indonesian society about digital transactions, which only reaches 35%; the small contribution of the digital sector to Gross Domestic Product (GDP) growth; and bank leaders facing difficulties in leading and implementing comprehensive changes simultaneously related to culture, systems, and the required skills.

One example of a barrier to the development of the banking industry posed by FinTech is security issues. Increasingly advanced security technologies are matched by improvements in cyber theft techniques. Common crimes in the banking sector include

identity theft, or phishing. Phishing is the act of stealing sensitive information from others, such as full names, addresses, and phone numbers, with the aim of hacking customer accounts. All of these actions are carried out by irresponsible individuals, such as hacking websites to access company information without consent, committing fraud that looks like an online business, and so on.

Indonesia has a significant opportunity to develop Sharia-compliant financial technology, which offers numerous benefits. Bank Indonesia strongly believes that implementing financial technology within a Sharia-compliant framework is essential, as part of the development of the Sharia economy in the country. Several business sectors have the potential to be developed through Sharia-compliant FinTech services, including the technology-based independence of Islamic boarding schools (pesantren). Islamic boarding schools can access a variety of quality products, and Sharia FinTech can serve as a collaborative platform for sharing products between Islamic boarding schools. In other business sectors, such as halal tourism, FinTech also offers significant opportunities to support payment processes and marketing.

Factors Inhibiting Fintech Growth

The use of Islamic fintech by MSMEs in Indonesia faces several challenges that require attention. These challenges can influence how MSMEs adopt and use Islamic fintech. The following are some of the obstacles to consider:

- 1) 1) Lack of Awareness and Knowledge: One of the main barriers to the use of Islamic fintech by MSMEs in Indonesia is a lack of awareness and knowledge about it. Many MSMEs still don't fully understand the potential and benefits of using Islamic fintech. This lack of understanding can make MSMEs hesitant to utilize Islamic fintech services.
 - 2) Technical and Digital Incompetence: Some MSMEs may experience technical difficulties and a lack of digital skills when using Islamic fintech. Some of them may lack adequate knowledge or skills in using mobile applications, online platforms, or other related technologies required for Islamic fintech. This lack of technical and digital skills can be a barrier to the effective adoption and utilization of Islamic fintech.
 - 3) Availability of Digital Infrastructure: Limited digital infrastructure in some regions in Indonesia can also be a barrier. In some locations, adequate internet access is still difficult to obtain, networks are poor, and technology is lacking. This situation can impact the ability of MSMEs to optimally access and utilize Sharia-compliant fintech services.
 - 4) Regulations and Policies: Uncertainty regarding regulations and policies related to Islamic fintech can also be a barrier for MSMEs in Indonesia. Unclear regulations, differences in management, and incompatibility with the characteristics of Islamic fintech can affect MSMEs' level of trust and comfort in using these services. Furthermore, unsupportive or overly rigid policies can also hinder the progress of Islamic fintech and its utilization by MSMEs.
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- 5) 5) Data Security and Privacy: Data security and privacy issues are also inhibiting factors in the use of Islamic fintech by MSMEs. Many MSMEs are concerned about the confidentiality and security of their data when using Islamic fintech services. These concerns arise from a lack of trust in data protection, the potential for misuse of personal information, and the lack of clarity regarding data protection within Islamic fintech.

CONCLUSION

Based on the background and research problems that have been presented, it can be concluded that Islamic fintech plays a strategic role in supporting economic development in the era of financial digitalization. The presence of Islamic fintech not only serves as a technological innovation in financial services, but also functions as a means to expand financial inclusion while remaining grounded in Sharia principles, such as justice, transparency, and the prohibition of *riba*, *gharar*, and *maysir*. Through the utilization of digital technology, Islamic fintech is able to provide more accessible, faster, and more efficient financial services, particularly in financing for micro, small, and medium enterprises (MSMEs) as well as unbanked communities. This condition has the potential to foster more inclusive and sustainable economic growth. Nevertheless, the development of Islamic fintech still faces several challenges, including uneven levels of Islamic financial literacy, evolving regulatory frameworks, and public trust in the security and Sharia compliance of the products offered. Therefore, further exploration of the role of Islamic fintech is essential to comprehensively understand its contribution to the digital economic ecosystem. This research is expected to provide both academic and practical insights into the opportunities, challenges, and strategies for strengthening Islamic fintech so that it can play an optimal role in supporting national economic growth in the era of financial digitalization.

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