

THE ROLE OF FINANCIAL TECHNOLOGY IN PROMOTING GROWTH IN ISLAMIC FINANCE IN THE DIGITAL ERA

Mutiara Eka Putri^{1*)}, Hanif²⁾

^{1,2)}*Master of Sharia Economics, Postgraduate Program, Raden Intan Lampung State Islamic University*

E-mail: mutiaraep89@gmail.com

ABSTRACT

Financial technology (fintech) has increased and can potentially drive Sharia finance's growth. This study aims to analyze fintech's role in promoting Islamic finance's growth in the digital era. The research method uses a literature study. A descriptive analysis approach involves breaking secondary data in journals, articles, and statistical reports related to the research topic. The results of this study indicate that the adoption of fintech in Sharia finance is predicted to continue to increase, driven by the millennial Muslim population. Fintech provides opportunities for Sharia financial product innovation. However, the challenges of developing Sharia fintech are significant and related to regulations, compliance risk, and human resources. Some examples of Sharia fintech platforms, such as P2P lending and equity crowdfunding, have been quite successful. The prospects for sharia fintech in Indonesia are positive with the support of digital infrastructure and the millennial Muslim population. Regulatory support is needed so that Sharia fintech is truly compliant and can drive the growth of Islamic finance. Sharia fintech has the potential to be a game changer for the development of Islamic finance in Indonesia. Comprehensive support from regulators and stakeholders can realize the optimal implementation of Sharia fintech for inclusive and sustainable Sharia finance expansion.

Keywords: Financial Technology; Growth Of Islamic Finance; Digital Era

ABSTRAK

Teknologi keuangan (fintech) telah berkembang pesat dan berpotensi mendorong pertumbuhan keuangan syariah. Penelitian ini bertujuan untuk menganalisis peran fintech dalam mendorong pertumbuhan keuangan syariah di era digital. Metode penelitian menggunakan studi literatur. Pendekatan analisis deskriptif digunakan dengan melibatkan perincian data sekunder berupa jurnal, artikel, dan laporan statistik yang berkaitan dengan topik penelitian. Hasil penelitian ini menunjukkan bahwa adopsi fintech pada keuangan syariah diprediksi akan terus meningkat didorong oleh populasi Muslim milenial. Fintech memberikan peluang bagi inovasi produk keuangan syariah. Namun tantangan pengembangan fintech syariah cukup besar terkait regulasi, risiko kepatuhan syariah, dan sumber daya manusia. Beberapa contoh platform fintech syariah seperti P2P lending dan equity crowdfunding cukup berhasil. Prospek fintech syariah di Indonesia positif dengan dukungan infrastruktur digital dan populasi Muslim milenial. Dukungan regulasi diperlukan agar fintech syariah benar-benar sesuai syariah, sehingga mampu mendorong pertumbuhan keuangan syariah. Fintech syariah berpotensi menjadi game changer bagi pertumbuhan keuangan syariah di Indonesia. Dukungan komprehensif dari regulator dan pemangku kepentingan dapat mewujudkan implementasi fintech syariah yang optimal untuk perluasan keuangan syariah yang inklusif dan berkelanjutan.

Kata Kunci: Teknologi Finansial; Pertumbuhan Keuangan Islam; Era Digital

1. INTRODUCTION

As a country with a majority Muslim population, Indonesia certainly does not wish to lag behind Malaysia (Rani et al., 2021) in developing its Islamic finance sector. For over 30 years, Islamic finance has been determined to provide excellent and modern services through financial technology (fintech) platforms (Khudhori & Hendri, 2021) to ensure flexibility, convenience, security, and efficiency for users of Sharia-based financial services (Glavina et al.). It must comply with the decisions of the National Sharia Board-Indonesian Council of Ulama (DSN-MUI) (Aulia et al., 2020). Fintech has become an absolute necessity (Hasan et al., 2020), and

its permissibility in Islam cannot be doubted (Narastri, 2020). However, standards or criteria that can serve as guidelines are still required (Baber, 2019) with provisions by Sharia principles (Laldin et al., 2019) that avoid elements of *riba* (interest), *gharar* (excessive uncertainty), *dharar* (harm), *maysir* (gambling) and *mafsadat* (damage) (Lajis, 2019).

Therefore, in the era of Industry 4.0, the Islamic finance sector utilizing digital platforms should adopt intelligent technologies such as Fintech (Muneeza, Aishath, 2021). It needs to be efficient and prudent in providing services, serving, and avoiding fraud or hacking practices (Nurfadilah, Dety, 2021). This is because future needs will become more competitive yet flexible and complex, requiring speed, accuracy, innovation, effectiveness, and efficiency, such as in digital payment systems using e-wallets or digital wallets (Ahmed et al., 2021). Islamic Finance is also expected to adapt to the changing times without ignoring its system's principles of sharia and inherent values (Agustiniingsih et al., 2021).

Based on a survey by the Indonesian Internet Service Providers Association (APJII), the number of internet users in Indonesia reached 215.63 million in 2022-2023. This number increased by 2.67% compared to 210.03 million in the previous period (Indonesian et al. Providers Association (APJII), 2023). The rapid technological advancement in Indonesia, along with the widespread dissemination of internet services and decreasing prices of devices to access the online world, has led to significant growth in internet users. This phenomenon opens great financial gaps. Amid these conditions, financial technology (FinTech) companies emerged as an alternative solution to meet people's financial services needs (Gani, 2014).

Financial Technology (FinTech) is an industry that consists of companies that utilize technology to improve the efficiency of financial systems and provision of financial services (Nizar, 2020). As a technological innovation in financial services, FinTech creates business models, applications, processes, or products that have a significant impact on the provision of financial services (Sudirman & Disemadi, 2022). Through creative ideas and technological innovations, FinTech provides new options for consumers in carrying out various activities, such as payment, money transfer, fund intermediation, and investment (Irawan, 2021). Penerapan konsep fintech yang menyatukan kemajuan teknologi dengan sektor keuangan diyakini dapat membawa kemudahan, keamanan, dan modernitas dalam proses transaksi keuangan (Adhitya Wulanata, 2017). Perkembangan financial technology start-up tidak akan hadir tanpa peran yang signifikan. Berbagai faktor mempengaruhi kemajuan financial technology dan dampaknya terhadap gaya hidup global. Hal tersebut yang mendorong pertumbuhan sektor financial technology sebagai kebutuhan baru bagi masyarakat (Naution et al., 2021).

This research aims to analyze the role of financial technology (fintech) in driving the growth of the Islamic finance sector amid the current digital revolution. Specifically, this study will evaluate the opportunities and challenges of implementing fintech innovations on banking products and services and Islamic non-bank financial institutions. Mapping prospective types of fintech to be applied to solve problems in the Islamic finance industry will also be carried out. In addition, the contribution of fintech to the expansion of Islamic finance in terms of funding, financing, transactions, and profitability will also be examined.

2. RESEARCH METHODS

The research method used in writing this scientific article is library research, which aims to answer research questions by exploring information from various library sources such as books, encyclopedias, journals, newspapers, magazines, and other scientific documents. This research focuses on identifying multiple theories, laws, principles, or concepts used to analyze and solve research problems formulated. The approach used in this research is descriptive analysis, which involves the structured breakdown of secondary data collected. This secondary data is analyzed and explained to make it more understandable for readers. Secondary data

sources used in research include journals, articles, and statistical reports issued by government agencies regarding the role of financial technology in driving growth in Islamic finance in the digital era.

3. RESULTS AND DISCUSSION

Financial technology (fintech) has developed rapidly in recent years. Fintech adoption in Islamic finance is expected to continue to increase. This is driven by the increasing millennial Muslim population, which is increasingly tech-savvy. Fintech allows the Islamic finance industry to continue to innovate and deliver products and services that comply with Sharia principles. Several main factors drive this projected increase in fintech adoption. First, there is an increase in the Muslim population of the millennial generation, who are very adaptive and proficient in using digital technology (Haddad et al.; L., 2019). The majority of the millennial Muslim generation wants financial services that are more efficient, transparent, and user-friendly through optimizing digital and mobile platforms.

Second, the development of fintech provides opportunities for the Islamic finance industry to continue to innovate in delivering products and services that comply with Sharia principles (Antonio et al., 2020). Fintech innovations such as blockchain, peer-to-peer lending, mobile payment, robo-advisory, and others have great potential to be implemented with sharia compliance schemes. By utilizing a variety of the latest fintech innovations, the Islamic finance industry is expected to become increasingly widespread, efficient, and able to provide more competitive and value-added financing and investment solutions for Muslim communities worldwide (Haddad et al.; L., 2019).

According to a report from the Malaysia International Islamic Financial Center (2018), fintech integration can encourage the growth of Islamic finance through increasing financial inclusion, operational efficiency, and broader access to Sharia financing and investment instruments. P2P lending platforms, for example, have been successful in reaching retail customers whom formal financial institutions have underserved. Even though Islamic fintech is still relatively new, several studies show its potential and favorable growth prospects. (Noor, S.M. and Muideen, P.M., 2019), in their research in Malaysia, found that 60% of respondents were interested in using a Sharia fintech platform if it was available. In addition, 78% of respondents believe that Sharia fintech can help improve the economic welfare of Muslims. According to (Abdalla et al.; M.Y.A., 2021), the main challenges in developing Sharia fintech include the need for a clear regulatory framework, compliance risks, and a lack of talent and technical capabilities. Therefore, close collaboration between regulators, ulama, and industry practitioners is needed. Standardization is also essential so that Sharia fintech products remain consistent and scalable. Some examples of Sharia fintech that have been successful include the equity crowdfunding platform Ethis from Singapore, the P2P lending platform Kapital Boost from Malaysia, and the Sharia-compliant investment platform Sharia Portfolio from Indonesia. The success of these startups proves the potential for Sharia fintech to continue to develop.

According to the State of the Global Islamic Economy Report 2022/2023, the Islamic finance sector is expected to grow 10.1% (CAGR) in 2021-2026, driven by fintech developments. The value of global Islamic financial assets is estimated to reach US\$5 trillion in 2026. Indonesia is ranked 4th as the country with the largest Sharia financial ecosystem in the world. With the support of improving digital infrastructure, increasing financial literacy and inclusion, and a large millennial Muslim population, the growth prospects for sharia fintech in Indonesia are very positive. The role of regulators and stakeholders is crucial to ensure that Sharia fintech products are in accordance with Islamic sharia. If it can be maximized well, Sharia fintech can be a game changer for the growth of Islamic finance in Indonesia in the current digital era.

4. CONCLUSION

Financial technology (fintech) is predicted to be increasingly adopted in the Islamic finance industry. This aligns with the increasing population of millennial Muslims who are very adaptive to digital technology. Fintech integration can encourage the growth of Islamic finance through increasing sharia financial inclusion, operational efficiency, and broader access to various sharia investment products and instruments.

Several studies and reports on the global Islamic finance industry show very positive growth prospects for Sharia fintech in the future. Sharia fintech products such as equity crowdfunding platforms, Sharia P2P lending, and existing Sharia investment management applications have also been quite successful in attracting Muslim consumers' interest in several countries.

However, the challenges in developing Sharia fintech are still quite significant, primarily related to inadequate regulations, the risk of financing not by Sharia, and the lack of Sharia expert human resources and Muslim financial technology developers. Therefore, close cooperation between regulators, ulama, industry players, and educational institutions is necessary. With comprehensive support from various stakeholders, Sharia fintech has the potential to be a game changer for accelerating the growth of Islamic finance, especially in Indonesia, which has the world's largest Muslim population and considerable digital economic potential in the future.

REFERENCES

- Abdalla, M.M. and Basah, M.Y.A. (2021). Fintech in Islamic Finance: A Review of Challenges and Prospects. *International Journal of Economics and Management, Accounting*, 29(2).
- Adhitya Wulanata, I. (2017). Analisis SWOT Implementasi Teknologi Finansial Terhadap Kualitas Layanan Perbankan di Indonesia. *Jurnal Ekonomi Dan Bisnis*, 20(1), 133–144. <https://core.ac.uk/download/pdf/190864220.pdf>
- Agustiningasih, Maulida Dwi, Ravika Mutiara Savitrah, and P. C., & Lestari., A. (2021). “Indonesian young consumers’ intention to donate using Sharia Fintech.”. *Asian Journal of Islamic Management*, 3(1), 34-44.
- Ahmed, Mezbah Uddin, and K. M. T. (2021). “*The Opportunities of Digital Wallets from an Islamic Perspective.*” 267–279.
- Antonio, M.S., Rusydiana, A.S., Laila, N., Huda, N., & Marlina, L. (2020). Harnessing the potential of financial technology in Islamic finance. *Qualitative Research in Financial Markets*. <https://doi.org/10.1108/QRFM-02-2019-0017>
- Asosiasi Penyelenggara Jasa Internet Indonesia (APJII). (2023). “*Survei APJII pengguna internet di indonesia* ”. <https://apjii.or.id/berita/d/survei-apjii-pengguna-internet-di-indonesia-tembus-215-juta-orang>
- Aulia, Mahdiah, Aulia Fitria Yustiardi, and R. O. P. (2020). "An overview of Indonesian regulatory framework on Islamic financial technology (fintech). *Jurnal Ekonomi & Keuangan Islam*, 64–75.
- Baber, H. (2019). “Financial inclusion and Fintech: A comparative study of countries following Islamic and conventional finance. ” *Qualitative Research in Financial Markets*.
- Gani, A. G. (2014). Pengenalan Teknologi Internet Serta Dampaknya. *Jurnal Sistem Informasi Universitas Suryadarma*, 2(2). <https://doi.org/10.35968/jsi.v2i2.49>
- Glavina, Sofia G., Irina A. Aidrus, and A. A. T. (n.d.). “Assessment of the Competitiveness of

- Implementation of Islamic Financial Technologies. " *In Proceedings of the International Conference Digital Age: Traditions, Modernity and Innovations (ICDATMI 2020)*, 191-197. <https://dx.doi.org/10.2991/>
- Haddad, C. and Hornuf, L., 2019. (2019). The emergence of the global fintech market: Economic and technological determinants. *Small Business Economics*, 53(1), 81–105.
- Hasan, R., Mohammad Kabir Hassan, & S. A. (2020). "Fintech and Islamic finance: literature review and research agenda." *International Journal of Islamic Economics and Finance (IJIEF)*, 3(1), 75–94. <https://doi.org/10.18196/ijief.2122>
- Irawan, F. (2021). RELEVANSI FINANCIAL TECHNOLOGY DI TINJAU DARI PERSPEKTIF EKONOMI SYARI'AH: Relevansi Financial Technology Di Tinjau Dari Perspektif Ekonomi *AL-Bayan: Jurnal Hukum Dan Ekonomi Islam*, 6469, 50–75. <http://jurnal.stainwsamawa.ac.id/index.php/al-bayan/article/view/18>
- Khudhori, K. U., & Hendri, L. (2021). Islamic Banking and Fintech: Sustainable Collaboration. *Al-Intaj : Jurnal Ekonomi Dan Perbankan Syariah*, 7(2), 172. <https://doi.org/10.29300/aij.v7i2.4881>
- Lajis, S. M. (2019). "Fintech and risk-sharing: a catalyst for Islamic finance." *In Islamic Finance, Risk-Sharing and Macroeconomic Stability*, pp. 237–254.
- Laldin, Mohamad A., & F. D. (2019). "Islamic finance in the digital world: Opportunities and challenges (Kewangan et al.: Peluang dan Cabaran). " *Journal of Islam in Asia*", 16(3), 283–299. <https://doi.org/10.31436/jia.v16i3.853>
- Malaysia International Islamic Financial Centre. (2018). *Fintech in Islamic Finance: Enabling Distinct Opportunities*.
- Muneeza, A., & Z. M. (2021). "Islamic Fintech and financial inclusion." *In Islamic Fintech*, pp. 173–190. https://doi.org/10.1007/978-3-030-45827-0_10
- Narastri, M. (2020). "Financial technology (Fintech) di Indonesia ditinjau dari perspektif Islam". " *Indonesian Interdisciplinary Journal of Sharia Economics (IJSE)* 2, 2, 155–170. <https://doi.org/10.31538/%0Aijse.v2i2.513>
- Nauton, D. A., Hasibuan, R. R. A., & Prayoga, R. (2021). Tingkat Perkembangan Fintech (Financial Technology), Pemahaman Fintech (Financial Technology) dan Minat Mahasiswa UIN Sumatera Utara. *Jurnal Pendidikan Tambusai*, 5(3), 9080–9090. <https://jptam.org/index.php/jptam/article/view/2423>
- Nizar, M. A. (2020). Financial Technology (Fintech): Its Concept and Implementation in Indonesia. *Munich Personal RePEc Archive*, 5(98486), 4–10.
- Noor, S.M. and Muideen, P.M. (2019). Fintech in Islamic finance: A user perspective in Malaysia. *Review of Islamic Economics*, 13(2), 139–167.
- Nurfadilah, Dety, and S. S. (2021). "How The Covid-19 Crisis Is Affecting Customers' Intention To Use Islamic Fintech Services: Evidence From Indonesia." *Journal of Islamic Monetary Economics and Finance*, 83–114.
- Rani, N. F. A., Seman, A. C., Rahman, A. A., & Z'aba, M. R. (2021). A View Point Of Islamic Financial Technology (I-Fintech) In Malaysia. *Labuan E-Journal of Muamalat and Society*, 15, 97–110. 15
- Sudirman, L., & Disemadi, H. S. (2022). Titik Lemah Industri Keuangan Fintech di Indonesia: Kajian Perbandingan Hukum. *Jurnal Pembangunan Hukum Indonesia*, 4(3), 471–493. <https://doi.org/10.14710/jphi.v4i3.471-493>