



THE CHALLENGES OF SHARIA FINTECH REGULATION IN INDONESIA: A GLOBAL COMPARATIVE ANALYSIS

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ABSTRACT

The purpose of this study is to analyze Sharia-compliant fintech regulations in both countries and provide recommendations to strengthen their regulatory frameworks. Financial technology (fintech) has transformed the global financial industry landscape by introducing innovations that accelerate access to financial services. Sharia-compliant fintech, as part of this development, plays a critical role in providing financial services that comply with Sharia principles, such as the prohibition of *riba*, *gharar*, and *maysir*. The study found that Sharia-compliant fintech regulations in several countries, such as Indonesia and Bangladesh, are still in their infancy. Existing regulations are often not fully aligned with the needs of Sharia-compliant fintech, highlighting the need for a more comprehensive and inclusive regulatory approach. In Indonesia, the Financial Services Authority and Bank Indonesia have issued several policies to support fintech development, but there is still no specific regulation for Sharia-compliant fintech. In Bangladesh, the development of Sharia-compliant fintech is supported by Islamic banking initiatives, although a more mature regulatory framework is still needed. By adopting best practices from countries such as Malaysia, which have developed more advanced regulations for Sharia-compliant fintech, both countries can increase financial inclusion and create a more sustainable fintech ecosystem.

1. Introduction

Fintech (financial technology) has revolutionised the global financial industry by introducing digital innovations that simplify financial services.¹ Fintech plays a crucial role in reducing dependence on traditional financial institutions, enabling faster, easier, and more secure access to services such as payments, loans, and

1 Preethi Vijayagopal, Bhawana Jain and Shyam Ayinippully Viswanatha., Regulations and Fintech: A Comparative Study of the Developed and Developing Countries. *Journal of Risk and Financial Management*, Vol.17 No.8, 2024, page. 324

investments.² Through technologies like blockchain, AI, and big data, fintech not only improves operational efficiency but also creates new, more inclusive, and customer-centric business models, reshaping the global financial structure.³ Technology was created based on the results of human thought to make life easier,⁴

Fintech is an innovation that develops through the use of technology. It helps to solve the financial problem in society.⁵ Fintech has transformed the global financial industry landscape by introducing innovations that accelerate access to financial services. Sharia-compliant fintech is an innovation in financial technology that adheres to Sharia principles, such as the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation).⁶ Its focus on ethics and fairness in financial transactions makes it appealing to those seeking financial solutions aligned with Islamic values. Sharia-compliant fintech services include *murabaha*-based financing, digital *waqf*, *zakat*, and *halal* investment platforms, providing Muslims with opportunities to engage in financial services that align with their beliefs.

Indonesia, with the largest Muslim population in the world,⁷ has become one of the countries experiencing rapid growth in Sharia-compliant fintech.⁸ The Indonesian government supports Sharia-compliant fintech through regulations that encourage innovation in this sector, with the *Otoritas Jasa Keuangan*/Financial Services Authority (OJK) overseeing Sharia-compliant fintech within the digital financial ecosystem.⁹ Sharia-compliant fintech companies offer various services, including Sharia-compliant loans, *halal* crowdfunding, and the management of *zakat* and *waqf*, expanding access to ethical and Sharia-compliant financial services.

2 Sumit Agarwal and Jian Zhang., FinTech, Lending and Payment Innovation: A Review. *Asia-Pacific Journal of Financial Studies*, Vol.49 No.3, 2020, page. 353-367

3 Henri Arslanian and Fabrice Fischer., The Future of Finance: The Impact of FinTech, AI, and Crypto on Financial Services. Springe, 2019

4 Nadi Azkia Ali Alfathimi, Rida Rosmawati, Arim Nasim, Caria Ningsih., Opportunities and Challenges of Sharia Financial Technology Governance in Indonesia: A Literature Review, *Edusentris: Jurnal Ilmu Pendidikan dan Pengajaran*, Vol.3 No.2, 2024, page. 3-85

5 Muhammad Annas, Muhamad Anwar Ansori., Problems in Determining Interest in Peer-to-Peer Lending in Indonesia, *Jurnal Media Hukum*, Vol.28 No.1, 2021, page. 102-117

6 Nafis Alam, Abdolhossein Zamani and Lokesh Gupta., Fintech and Islamic Finance: Digitalization, Development and Disruption, *Fintech and Islamic finance*. Springer, 2019

7 Hanny Nurlatifah, Asep Saefuddin, Marthin Nanere, and Vanessa Ratten., Muslimpreneur: Entrepreneur potential characteristics in Indonesia as the country with the largest Muslim population in the world. *Entrepreneurial Innovation: Strategy and Competition Aspects*, 2022, page. 129–139

8 Rezki Akbar Norrahman., Peran Fintech Dalam Transformasi Sektor Keuangan Syariah. *JIBEMA: Jurnal Ilmu Bisnis, Ekonomi, Manajemen, dan Akuntansi*, Vol.1 No.2, 2023, page. 101-126

9 Khoirunnisa Setiawati, Shidqi Ahmad Baihaqi, Suci Rizkiah Azahra, Virly Aprilawati and Hisny Fajrussalam., Inovasi Keuangan Islam: Peran Fintech dalam Perbankan Syariah. *Jurnal Ilmu Hukum*, Vol.1 No.2, 2024

Sharia-compliant fintech plays a key role in enhancing financial inclusion, particularly for communities previously underserved by traditional banks.¹⁰ With easily accessible digital platforms, Sharia-compliant fintech enables both rural and urban populations to engage in financial transactions without relying on conventional banks. This opens access to essential services like microenterprise financing, *zakat* management, and Sharia-compliant investments, all of which promote more inclusive economic growth based on Sharia values.¹¹

Sharia-compliant fintech is a form of financial technology developed based on Islamic financial principles (Sharia). It not only adopts technological innovations in financial services but also ensures that all transactions comply with Islamic law.¹² In this context, Sharia-compliant fintech plays a crucial role in supporting financial inclusion within Muslim communities by offering financial solutions that align with Sharia values and principles. This type of fintech has seen rapid growth in Muslim-majority countries like Indonesia, which has a significant number of Sharia-compliant fintech startups compared to other nations. One of the main principles that distinguishes Sharia-compliant fintech from conventional fintech is its adherence to Sharia law, which prohibits elements such as *riba*, *gharar*, and *maysir*. *Riba* is forbidden in Islam as it is considered a form of exploitation of those who borrow money, while *gharar* and *maysir* are prohibited because they involve uncertainty and speculation that could harm one of the parties in the transaction. Therefore, Sharia-compliant fintech products and services must be designed in a way that avoids practices incompatible with Sharia principles.

The role of Sharia in financial transactions for Sharia-compliant fintech is central, as all operations and services must follow guidelines set by the Sharia Board.¹³ In Indonesia, the fatwas issued by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) serve as the primary reference for Sharia-compliant fintech service providers. These fatwas define how financial products should be designed, operated, and marketed to ensure compliance with Islamic law. The DSN-MUI fatwas set standards for Sharia-compliant fintech operators to ensure that their business activities do not violate Sharia rules, such as avoiding interest-based transactions and investments in non-*halal* industries. With these guidelines, Sharia-compliant fintech can offer financial solutions that are not only efficient and innovative but also in line with Islamic moral and ethical values.

10 Mustafa Raza Rabbani., Fintech Innovations, Scope, Challenges, and Implications in Islamic Finance: A Systematic Analysis, *International Journal of Computing and Digital Systems*, 2022, page. 1-28

11 Ana Santika., Sharia Compliance in the Development of Islamic Micro Finance as a Economic Sustainability, *JIEP: Journal of Islamic Economics and Philanthropy*, Vol.7 No.2, 2024, page. 85-100

12 Felicia Hui Ling Chong., Enhancing Trust Through Digital Islamic Finance and Blockchain Technology. *Qualitative Research in Financial Markets*, Vol.13 No.3, 2021, page. 328-341

13 Paolo Pietro Biancone, Silvana Secinaro and Mohamad Kamal. Crowdfunding and Fintech: Business model sharia compliant. *European Journal of Islamic Finance*, No.12, 2019, page. 1-10

The regulation of Sharia-compliant fintech in Indonesia currently lacks a specific and comprehensive legal foundation.¹⁴ Financial Technology or Fintech are things and challenges that OJK must face in the midst of dynamic financial service sector innovations. Technology has changed the structure of the financial services industry.¹⁵ At present, Sharia-compliant fintech operates under the general regulations governing conventional fintech, as issued by Bank Indonesia (BI) and the Financial Services Authority (OJK). Bank Indonesia (BI) has the authority to regulate digital payment systems and technology-based financial transactions through Bank Indonesia Regulations (PBI). Additionally, the OJK regulates and supervises financial technology services through OJK Regulations (POJK), which cover aspects such as technology-based lending and digital financial innovation. While there are regulations for fintech in general, there is no specific rule explicitly designed to regulate Sharia-compliant fintech, leading to a lack of legal certainty and protection for consumers of Sharia-compliant fintech services.

The fatwas issued by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) play a crucial role in ensuring Sharia compliance within the fintech sector in Indonesia.¹⁶ DSN-MUI has established Sharia principles that must be adhered to by Sharia-compliant fintech, including the prohibition of *riba*, *gharar*, and *maysir*, as well as other guidelines that align with Islamic law. These fatwas serve as a reference for Sharia-compliant fintech companies to ensure that the products and services they offer are consistent with Sharia principles. However, in the absence of more formal and specific regulations from the government, the implementation and supervision of Sharia compliance in the Sharia-compliant fintech industry remain challenges that regulators in Indonesia need to address. This research aims to analyse the regulation of Sharia-compliant fintech in Indonesia and provide recommendations based on lessons learned from other countries. Through this approach, the goal is to find solutions that support the better development of Sharia-compliant fintech in Indonesia.

2. Research Methods

The research approach used in this study is qualitative analysis, conducted through a literature review and a comparison of Sharia-compliant fintech regulations from various countries. This methodology aims to understand the regulatory framework of Sharia-compliant fintech, with data derived from relevant literature. The study adopts a normative approach. The analysis

14 Dwi Fidhayanti, Mohd Shahid Mohd Noh, Ramadhita Ramadhita, Syabbul Bachri., Exploring The Legal Landscape of Islamic Fintech in Indonesia: A Comprehensive Analysis of Policies and Regulations. *F1000 Research*, Vol.13, 2024

15 Dwi Tatak Subagiyo., Characteristics of Financial Technology as Financing Alternative Capitalization of Medium Small-Medium Enterprises (MSME), *Fiat Justisia: Jurnal Ilmu Hukum*, Vol.15 No.2, April-June 2021, page.133-158.

16 Muhammad Rais and Harya Pramata., Regulating Sharia Financial Transactions: The Role of the Indonesian Ulema Council (MUI) and Implications for Islamic Finance in Indonesia, *Law and Economics*, Vol.18 No.1, 2024, page.1-11

technique involves examining fintech regulations from different countries, identifying best practices that can be adopted, and evaluating the challenges and opportunities faced in the development of Sharia-compliant fintech regulations in Indonesia.

3. Results and discussion

3.1 Analysis of Sharia-Compliant Fintech Regulation in Indonesia

Islamic banking uses religious values as the basis and indicator for preparing company goals and policies.¹⁷ The regulatory framework for Sharia-compliant fintech in Indonesia is still in its developmental stage and lacks specific regulations that explicitly govern Sharia-based fintech. Currently, the fintech sector in Indonesia is regulated by two main authorities: Bank Indonesia (BI) and the Financial Services Authority (OJK), each with its own responsibilities in overseeing the financial sector.¹⁸ However, Sharia-compliant fintech is still governed under the same regulatory framework as conventional fintech, which often does not fully align with Sharia principles.¹⁹

Bank Indonesia's role in fintech regulation focuses on the payment system and financial system stability.²⁰ Bank Indonesia has issued several regulations related to the use of technology in financial services, including the Bank Indonesia Regulation governing electronic money,²¹ payment instruments using cards, and payment transaction management. While these regulations provide a foundation for the general operation of fintech, they do not specifically address the unique needs or characteristics of Sharia-compliant fintech. BI also promotes innovation in digital financial services through its regulatory sandbox, which allows fintech companies to test new products in a supervised environment. However, there is still no targeted approach for Sharia-based fintech in this context.

3.2 Role of the Financial Services Authority (OJK)

The Financial Services Authority (OJK) plays a central role in regulating and overseeing financial technology services in Indonesia, including Sharia-

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18 Dona Budi Kharisma., Urgency of Financial Technology (Fintech) Laws in Indonesia. *International Journal of Law and Management*, Vol.63 No.3, 2021, page.320-331

19 Istianah Zainal Asyiqin, Irvan Mareto, and Manuel Beltrán Genovés., The Role of Regulation in the Development of Sharia Fintech: A Review of Contemporary Islamic Economic Law, *Sharia Oikonomia Law Journal*, Vol.2 No.4, 2024, page. 255–270

20 Muyanja-Ssenyonga Jameaba., Digitization Revolution, FinTech Disruption, and Financial stability: Using the Case of Indonesian Banking Ecosystem to Highlight Wide-Ranging Digitization Opportunities And Major Challenges, 2020, page 1-44

21 Lastuti Abubakar and Tri Handayani., Financial Technology: Legal Challenges for Indonesia Financial Sector, *IOP Conference Series: Earth and Environmental Science*, 2018, page. 1-5

compliant fintech.²² OJK has issued several regulations supporting the development of fintech, such as the OJK Regulation (POJK) on Information Technology-Based Lending (P2P Lending) and Digital Financial Innovation. OJK emphasizes the importance of prudential principles and consumer protection in all digital financial services. However, like BI, OJK's regulations do not specifically address Sharia aspects within fintech. Despite this, OJK continues to work on integrating Sharia financial principles into its existing regulations and encourages collaboration with industry players to create a more inclusive Sharia fintech ecosystem.

The National Sharia Council of the Indonesian Ulema Council or *Dewan Syari'ah Nasional Majelis Ulama Indonesia* (DSN-MUI) plays a crucial role in ensuring that Sharia-compliant fintech services in Indonesia adhere to Sharia principles.²³ DSN-MUI issues fatwas that guide fintech companies in their operations according to Islamic law. These fatwas include prohibitions against practices like *riba*, *gharar*, and *maysir*, ensuring that all transactions within the Sharia fintech ecosystem are *halal* and Sharia-compliant. Although DSN-MUI does not have direct regulatory authority like BI and OJK, its role as a Sharia supervisory body is essential for maintaining the integrity and compliance of Sharia-compliant fintech with Islamic law.

Overall, the regulatory framework for Sharia-compliant fintech in Indonesia needs to be strengthened and adjusted to accommodate the specific needs of this industry. The combination of general regulations issued by BI and OJK, along with Sharia guidelines from DSN-MUI, shows a good effort in regulating and supporting Sharia-compliant fintech. However, it is not yet entirely sufficient to address the challenges and dynamics of the evolving Sharia fintech ecosystem. There is a need for a more specific and comprehensive regulatory framework that not only covers technical aspects but also provides legal certainty, consumer protection, and facilitates growth and innovation in the Sharia fintech industry in Indonesia.

3.3 Comparative Study with Other Countries

The regulation of Sharia-compliant fintech in Bangladesh is still in its early stages of development. While there have been some initiatives to introduce Sharia-based financial technology, Bangladesh faces challenges in creating a comprehensive regulatory framework. Currently, the primary regulatory authority for the financial sector in Bangladesh is the Bangladesh Bank. However, there are no specific regulations governing Sharia-compliant fintech. Despite this, some initiatives have been undertaken by Islamic banks, such as

22 Mahdiah Aulia, Aulia Fitria Yustiardi, and Reni Oktavia Permatasari., An overview of Indonesian regulatory framework on Islamic financial technology (fintech). *Jurnal Ekonomi & Keuangan Islam*, Vol.6 No.1, 2020, page. 64-75

23 Fadli Daud Abdullah, Doli Witro, Misbahul Munir Makka, Muhamad Sadi Is and Syahid Mujahid Wiwaha, Contemporary Challenges for Sharia Financial Institutions to Increase Competitiveness and Product Innovation Perspective of Sharia Economic Law: Evidence in Indonesia, *MILRev: Metro Islamic Law Review*, Vol.3 No.2, 2024, page. 141-173

Islami Bank Bangladesh Limited, which has announced plans to integrate Sharia-compliant fintech into its operations. This move highlights the significant potential for fintech to support economic growth and the development of Islamic finance in Bangladesh. The regulatory approach to Sharia-compliant fintech in Bangladesh largely focuses on the development of digital financial infrastructure in general. The Bangladeshi government and Bangladesh Bank have begun implementing regulations that govern digital payment technologies, such as digital wallets and mobile banking. The regulatory framework in Bangladesh needs to emphasize strict adherence to Sharia principles while ensuring that technological innovation continues to flourish.²⁴

Bangladesh has made efforts to address financial technology innovation by integrating digital services into the financial sector.²⁵ Technologies like mobile banking and digital payments, especially through companies like bKash, have successfully created an inclusive financial ecosystem. However, when it comes to Sharia-compliant fintech, Bangladesh still needs to strengthen its regulatory measures and build a framework that supports collaboration between the fintech sector and Islamic financial institutions. With the increasing use of mobile phones and the internet, Sharia-compliant fintech has the potential to play a significant role in enhancing financial inclusion, particularly for Bangladesh's large Muslim population.

Sharia-compliant fintech in Malaysia has undergone significant transformation as part of the global digital financial revolution.²⁶ The adoption of financial technology that aligns with Sharia principles, such as the prohibition of *riba*, *gharar*, and *maysir*, has opened new opportunities for the Islamic finance industry. Malaysia, as one of the world's leading Islamic finance hubs, has responded to these developments by creating a regulatory framework and encouraging innovation in the Sharia-compliant fintech sector. Initiatives like the Regulatory Sandbox launched by Bank Negara Malaysia (BNM) provide a secure environment for fintech startups to develop Sharia-compliant products and services.

Regulation of Sharia-compliant fintech in Malaysia is also evolving to address modern challenges,²⁷ such as the regulation of cryptocurrency and blockchain technology. However, the existing Islamic Financial Services Act (IFSA) 2013 is not entirely comprehensive in its regulation of these new financial technologies.

24 Syed Magfur Ahmad and Abdullah Al Mamun., Opportunities of Islamic FinTech: The Case of Bangladesh and Turkey. *CenRaPS Journal of Social Sciences*, Vol.2 No.3, 2020, page. 412-426.

25 Mustafa K Mujeri and Sifat-E-Azam, Role of Digital Financial Services in Promoting Inclusive Growth in Bangladesh: Challenges and Opportunities, *Working Paper*, No.55, 2018, page. 1-25

26 Surianom Miskam, Farah Mohd Shahwahid and Nawal binti Sholehuddin., Catching The Fintech Wave In Islamic Finance: Regulatory Approach For Malaysia, *4th Muzakarah Fiqh & International Fiqh Conference (MFIFC 2018)*, Kuala Lumpur, 2018, page. 223-235

27 Mustafa Raza Rabbani., Fintech Innovations, Scope, Challenges, and Implications in Islamic Finance: A Systematic Analysis. *International Journal of Computing and Digital Systems*, Vol.11, No.1, 2022, page. 1-28

Therefore, the development of more specific and thorough regulations is being discussed to ensure that Sharia-compliant fintech products are not only innovative but also adhere to strict Sharia rules.

Sharia-compliant fintech plays a vital role in financial inclusion in Malaysia, providing alternatives for over 1.82 million Malaysians who lack access to conventional banking services.²⁸ Solutions like Sharia-compliant crowdfunding and peer-to-peer (P2P) financing have opened up opportunities for small businesses and individuals to access funding that was previously out of reach. With high smartphone penetration in Muslim-majority countries, the demand for digital Sharia financial solutions continues to rise, reinforcing fintech's role in financial inclusion.

Malaysian regulations more clearly regulate how the Islamic financial system ran based on sharia principles. However, the existing regulations do not specifically discuss sharia fintech. This means that it is still very broad if regulations regarding Islamic finance are also used as the legal umbrella for sharia fintech.²⁹ Malaysia's regulatory approach to Sharia-compliant fintech focuses on two main aspects: compliance with Sharia principles and financial technology innovation. Bank Negara Malaysia (BNM) has developed a Regulatory Sandbox framework that allows fintech companies to test their innovative solutions under lighter regulatory oversight.³⁰ This approach enables BNM to identify risks and assess the potential success of fintech products before they are fully launched in the market. Additionally, the Shariah Advisory Council (SAC) in Malaysia plays a crucial role in reviewing and ensuring that fintech services offered by companies truly comply with Sharia principles.

In handling financial technology innovations, Malaysia has taken a balanced approach between promoting innovation and maintaining financial stability, as well as protecting consumers. One key strategy is the implementation of the Regulatory Sandbox, which allows fintech companies to operate in a controlled environment while still adhering to regulatory standards. This ensures that new services entering the market have been thoroughly tested and risk-assessed. On the other hand, Bank Negara Malaysia also prioritizes consumer protection by implementing regulations to prevent unethical practices, ensure transparency in financial transactions, and protect consumers from technology-related risks such as data breaches and fraud. Through collaboration between regulators, Islamic financial institutions, and fintech providers, Malaysia has

28 Sari Lestari and Siti Mutmainah., Resilience Reinforced: an In-Depth Analysis of Bank Syariah Indonesia's Post-Merger Performance, *Jurnal Akuntansi dan Bisnis*, Vol.24 No.1, 2024, page. 137-156

29 Cucu Susilawati (etc)., Comparative Study on The Regulation Of Sharia Financial Technology In Indonesia and Malaysia, *Jurisdictie: Jurnal Hukum dan Syariah*, Vol.12 No.1 2021, page.1-19

30 Muhammad Ilyas Bin Ab Razak, Nur Akma Binti Mohd Dali, Guru Dhillon, and Azwina Wati Abdull Manaf. Fintech In Malaysia: An Appraisal to the Need of Shariah-Compliant Regulation. *Pertanika Journal of Social Sciences and Humanities*, Vol.28 No.4, 2020, page. 3223-3233

successfully created an ecosystem that supports financial innovation while maintaining financial stability and consumer trust. This approach has allowed the country to continue leading the global Sharia-compliant fintech sector with a strong balance between innovation and adherence to Sharia principles.

Overall, the transformation of Sharia-compliant fintech in Malaysia reflects the country's commitment to remaining a leader in the global Islamic finance sector. With a continuously evolving regulatory framework and widespread adoption of technology, Malaysia's Sharia-compliant fintech sector is well-positioned to tackle challenges and seize opportunities in the digital era while maintaining adherence to Sharia principles.

4. Conclusion

The study indicates that the regulation of Sharia-compliant fintech in both Indonesia and Bangladesh is still in the developmental phase and faces several challenges. In Indonesia, while the Financial Services Authority (OJK) and Bank Indonesia (BI) have issued various regulations to support fintech, there is still a lack of specific regulations that govern Sharia-compliant fintech. This situation results in Sharia-based fintech companies being regulated under a general framework, which often does not entirely align with Sharia principles, such as the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling). The presence of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) as the fatwa authority helps ensure that Sharia-compliant fintech services adhere to Sharia rules, even though it does not have direct regulatory authority. In Bangladesh, the regulation of Sharia-compliant fintech is also in the early stages of development. Although there are some initiatives from Islamic banks like Islami Bank Bangladesh Limited to use Sharia-based fintech in their operations, there are no specific regulations that govern this sector. Bangladesh Bank, as the main regulatory body, remains focused on regulating digital payment technology in general, without specifically addressing Sharia-compliant fintech. Lessons from countries like Malaysia demonstrate that a more specific and comprehensive regulatory approach is necessary to ensure that Sharia-compliant fintech can grow while adhering to Sharia principles. Malaysia, for example, has successfully implemented a Regulatory Sandbox that allows for the testing of Sharia-compliant fintech innovations in a supervised environment. This approach could serve as a model for both Indonesia and Bangladesh in creating a more inclusive and sustainable Sharia fintech ecosystem.

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