

Islamic Fintech and Financial Inclusion: Innovations for Sustainable Economic Empowerment

Ismamudi Ismamudi¹, Gina B. Alcoriza², Marzuki Marzuki³, Maesya'bani⁴

¹Faculty of Economics and Business, Universitas Pelita Bangsa, Indonesia

²Tourism Management, Partido State University, Philippines

³Faculty of Economics and Business, Malikussaleh University, Indonesia

⁴Faculty of Economics and Business, Tazkia Institute, Indonesia

Email: Isma.mudi@pelitabangsa.ac.id

Abstract

The rapid growth of financial technology (fintech) has had a significant impact on the global financial sector. In the context of Islamic economics, Shariah-compliant fintech can be an innovative tool to promote sustainable financial inclusion. This paper aims to analyze the role of Islamic fintech in improving access to financial services from an Islamic economic perspective. The research methods used include an in-depth literature analysis of the concept of financial inclusion in Islam, an exploration of various existing Islamic fintech services, as well as successful case studies that reflect the implementation of this concept in society. Through this approach, this paper explains how Islamic fintech can provide solutions to financial access challenges in underserved communities. The analysis shows that Islamic fintech can provide access to a wider range of financial services and empower individuals and micro businesses. Concrete examples of services such as Islamic digital payment services and Islamic peer-to-peer lending show a positive impact in supporting financial inclusion and economic growth in various communities. However, the challenges in the form of complex regulations and the public trust that needs to be built should not be overlooked. This paper also analyzes the opportunities and challenges faced by Islamic fintech in creating a sustainable financial inclusion ecosystem that is in line with Shariah principles. In conclusion, the paper underlines the great potential of Islamic fintech as an innovative tool to achieve better financial inclusion in the Islamic economy. Policy recommendations and further implications are also discussed to ensure the sustainable development of Islamic fintech and its wider positive impact.

Keywords: Fintech, Islamic Finance, Financial Inclusion, Innovations, and Sustainable Economic Empowerment

INTRODUCTION

In recent years, the development of financial technology, or fintech has shaken and revolutionized the global financial sector. These innovations have not only opened the door to operational efficiencies and faster financial services but also sparked debates on how fintech can support the principles of Islamic economics, especially in the context of financial inclusion and sustainable economic empowerment. The success of fintech in improving access to financial services has been particularly highlighted in the global financial literature (Beck et al., 2007). According to the Global Islamic Fintech Report 2022, Islamic fintech growth continues to accelerate, with 375 Islamic fintech companies operating worldwide. The report also shows that Islamic fintech has helped expand access to finance for Muslims, especially in countries with significant Muslim populations. (Dinar Standard, 2022).

However, questions arise about the extent to which fintech can fulfill Islamic economic values and have a positive impact in the context of sustainable financial inclusion. The principles of Islamic economics include fairness, transparency, and sustainability. In this regard, a fintech that blends financial technology with Sharia principles is considered a model that has great potential to strengthen the Islamic economy. For example, technology-based financial services,



such as Islamic crowdfunding and Islamic peer-to-peer lending, promise a better understanding of how Islamic values can be integrated into modern financial platforms. (Khan & Bhatti, 2019).

Islamic economics and finance have an important role in increasing inclusive and sustainable economic growth. At an International Islamic Monetary Economics and Finance Conference, Bank Indonesia Governor Mr. Perry Warjiyo conveyed three important roles of Islamic economics in increasing inclusive and sustainable economic growth. First, Rahmatan lil 'Alamin, how to harmonize the strengthening of Islamic economics and finance with the application of the principle of sincerity to provide good benefits to the wider community. Second, Amanah is a principle that encourages humans to use natural resources responsibly to support a sustainable economy. Third, the principle of justice through the utilization of digital technology will strengthen exyar as a financial instrument in improving welfare and reducing poverty. (Haryono, 2023).

To support this, Bank Indonesia continues to encourage the formation of a research ecosystem and policy formulation in the field of exyar which is focused on optimizing digital innovation and its usefulness. Bank Indonesia, in its implementation, continues to innovate in the formulation of exyar development policies that encourage equal distribution of income through Zakat, Infaq, Sadaqah and Waqf (ZISWAF) and restore the economy through various related economic sectors such as the halal food industry, clothing, and tourism. In line with the commitment of the United Nations in the discussion of the Act for the Sustainable Development Goals emphasizes that the sustainable development goals are steps for a better future and describes what challenges will be faced from poverty alleviation, inequality, climate change, environmental degradation, and law. In a sense, these 17 goals are interconnected so they must go hand in hand and are important to achieve by 2030. (United Nations, 2023). Islamic Fintech thus plays an important role in addressing the challenges of Islamic financial inclusion.

By taking Sharia principles into account, Islamic fintech offers an alternative model that is more equitable and suited to the needs of underserved communities. Islamic peer-to-peer lending services, for example, provide access to capital for micro and small entrepreneurs who previously struggled to obtain financial support. (Mansour, 2018). However, despite its huge potential, Islamic fintech is also faced with several challenges, such as regulatory complexity and building public trust in technology-based financial platforms. Therefore, this paper presents how Islamic fintech plays a role in facing global challenges and enhancing financial inclusion and economic growth sustainably.

RESEARCH METHOD

The research method used in this paper involves three main stages, namely an analysis of the literature on financial inclusion in Islam, an exploration of existing Islamic fintech services, and a successful case study that reflects the implementation of this concept in society.

Literature Analysis of Financial Inclusion in Islam

This research began with an in-depth literature analysis of the concept of financial inclusion in Islam. Through theoretical and conceptual sources, the author gained an in-depth understanding of the principles of Sharia-compliant financial inclusion. (Kahf, 2010; Siddiqui, 2013). In this context, aspects such as fairness, transparency, and sustainability of the Islamic

economy become the focus of study to understand how financial inclusion can be implemented in a Sharia-compliant manner. (Ariff, 2006).

Exploration of Sharia Fintech Services

Next, this paper explores the various Islamic fintech services that are currently available. The author analyzes these products and services and assesses the extent to which they comply with Shariah principles. (Zakah, 2018; El-Galfy et al., 2021). Aspects such as fee transparency, fairness in transactions, and compliance with Islamic laws are highlighted in evaluating the contribution of Islamic fintech to financial inclusion. (Khan et al., 2017). This in-depth understanding helps to detail the positive impact that Islamic fintech can have in meeting people's needs.

Case Study

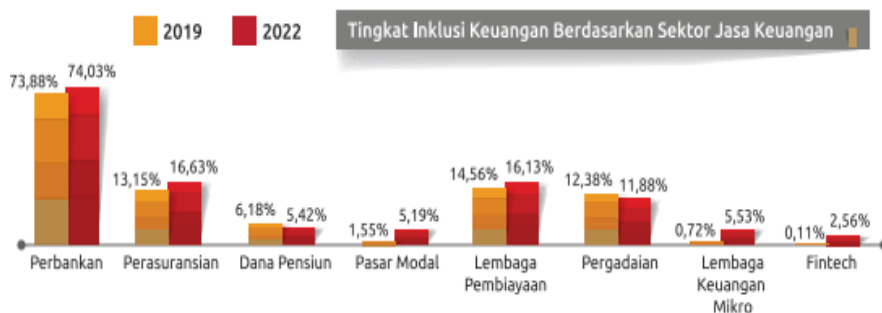
The research also includes case studies to provide practical insights into the implementation of the concept of financial inclusion through Islamic fintech. By analyzing specific cases in various communities, this paper identifies the key factors that led to the successful implementation of Islamic fintech. (Rosly, 2016; Hassan, 2019). This case study provides an empirical foundation to support the findings of the literature analysis and exploration of Islamic fintech services and enriches readers' understanding of the real impact that Islamic fintech can achieve in supporting financial inclusion.

By combining all three methods, this paper presents a holistic analysis of the role of Islamic fintech in improving access to financial services from an Islamic economic perspective. This approach not only builds a strong theoretical foundation but also provides practical insights through case examples, all of which contribute to a comprehensive understanding of the contribution of Islamic fintech to sustainable financial inclusion.

RESULTS AND DISCUSSIONS

Inklusi Keuangan dalam Islam

Financial inclusion is the availability of access for the community to utilize financial products and/or services in formal financial institutions to the needs and abilities of the community to realize prosperity (OJK, 2022). The sharia financial inclusion index in Indonesia in 2022 amounted to 12.12%, with the achievement of financial inclusion in the fintech sector of 2.56%. Financial inclusion growth in the fintech sector increased by 2.45% compared to 2019.



Financial inclusion rate by the financial services sector
 Source: SNLIK OJK (2022)

Financial inclusion provides opportunities to enable people to gain easy access to financial services, transaction efficiency, and improved living standards. As financial inclusion increases, so do financial transactions and economic activity in the community. This in turn increases employment opportunities and increases people's income. Ultimately, financial inclusion leads to poverty reduction, reduced inequality, and improved quality of life. (Akyuwen & Waskito, 2018).

Sharia fintech in Indonesia

The potential of the Islamic market in Indonesia is one of the opportunities for the growth of the Islamic finance industry. The Royal Islamic Strategic Studies Center (RISSC, 2022) mentioned that the Muslim population is estimated at 237.56 million people, or more than 86% of the total population of Indonesia. 2016 was the first time the Indonesian Financial Services Authority (OJK) issued a Peer-to-Peer (P2P) fintech regulation in Indonesia. Since then, the fintech ecosystem has grown rapidly until now there are more than 300 licensed fintechs and 4 fintech associations operating in the country. Fintech in Indonesia is divided into several types, namely: 30% payments, 24% P2P Lending, 11% Aggregator, 8% Crowdfunding, 7% Personal Financial Planning, and 11% other.



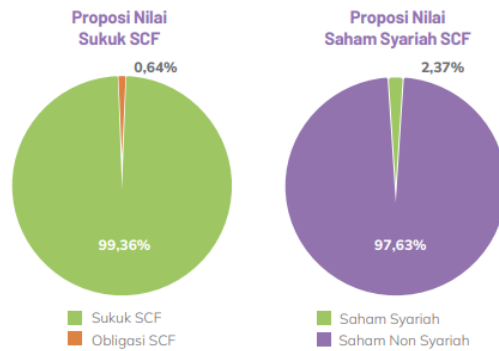
Types of fintech in Indonesia
 Source: Deloitte (2019)

Fintech plays an important role in changing consumer behavior and revolutionizing start-up businesses, including being able to access data and information unlimited by time and place. (Rinaldi, 2020). The fintech industry has also received support from the government, becoming one of the four strategies in the 2019-2024 Indonesian sharia economic masterplan at the point of strengthening the digital economy. In the latest development, Indonesia ranks third in The Global Islamic Fintech (GIFT) Index 2022, one rank higher than before. This index represents the countries that are most conducive to the growth of the Islamic fintech market and ecosystem. The assessment is based on 19 indicators from 5 categories, namely: Talent, regulation, sharia market, ecosystem, infrastructure, and capital. (Dinar Standard, 2022).



Hubs Analysis - Dominant Hubs GIFT
Source: Dinar Standard (2022)

The success of fintech in Indonesia can be seen at the end of 2022 in the development of Fintech Securities Crowdfunding (SCF). This scheme is a collaboration between the Financial Services Authority (OJK) and the small and medium enterprise industry in Indonesia in order to accelerate national economic recovery. Based on POJK, Circular Letter Number 3/SEOJK.04/2022 regarding the guidance of actors in issuing sharia securities through financing schemes for SMEs using SCF. From this scheme, in 2022 there were 85 issuers who were small and medium enterprises that had issued sukuk with a total of Rp167.52 billion and 4 issuers who had issued sharia shares with a total fundraising of Rp12.82 billion. Two of the 14 SCFs are fully fledged and offer Islamic securities in the form of sukuk.



	Saham Syariah	Sukuk	Jumlah
Jumlah Penerbit	4	85	89
Nilai Efek Syariah (Rp Miliar)	12,82	167,52	180,34

Value Proportion of SCF Sukuk and SCF Islamic Shares
Source: OJK (2022)

In rapid growth, the existence of sharia fintech remains at risk of being replaced along with technological developments and financial service innovations in Indonesia. To anticipate this, Islamic fintech must continue to develop services that make it easier for users and become the main choice of the community. In addition, sharia issues are also a challenge for sharia fintech players. After registering with OJK, sharia fintech companies must also obtain a license from the



National Sharia Council of the Indonesian Ulema Council (DSN MUI). The DSN MUI then inspects the registered Sharia business, appoints a Sharia Supervisory Board (DPS), and then embeds the Sharia label if all requirements have been met. This Sharia issue is important in Indonesia with a majority Muslim population. (Agustina & Faizah, 2023). Some people's stigma still generalizes sharia fintech with conventional fintech. Concerns about abusive billing methods and other issues need to be straightened out. The fact is that literacy about Islamic values that must be applied in life is still not optimal. The difference between Islamic fintech and conventional fintech lies in the Islamic fintech transaction contract which is based on Islamic values.

Other challenges include infrastructure, laws, and regulations, limited human resource capabilities, and a lack of public financial literacy. On infrastructure, application-based fintech services require a stable internet network. Not all regions in Indonesia have an adequate internet network. In terms of legislation and OJK supervision, the fintech industry needs to educate the public about consumer protection. Awareness of fintech services and products, as well as mitigation of fraud and scams, should be raised. In terms of financial literacy, currently, there is still limited human resource capacity. One of the threats that is currently being felt is the rise of illegal fintech or not licensed by OJK. This issue is a threat to people who lack financial and digital literacy, especially those who are already in debt. Protection efforts against fintech users are still not optimal, so effective policies are needed to protect the public as service users.

CONCLUSION

Islamic fintech has great potential to accelerate inclusive economic development, especially financial inclusion. One of them is the ease with which people can access financial services. Fintech services are not only free of time and place but can reach remote and unbankable communities. Fintech also has advantages in terms of system efficiency, so it can provide services with more competitive operating costs. In addition, the support of the development of information and communication technology is increasingly advanced, making it easier for people to use fintech services.

In Indonesia itself, the fintech industry has also received support from the government. Fintech is one of the four strategies of Indonesia's master plan for strengthening the digital economy. The presence of sharia fintech facilitates the Muslim community in applying sharia values to financial transactions. This illustrates the opportunity for the financial industry to revolutionize conventional activities into innovative Sharia-based digital product services for the community.

References

- Agustina, Refi & Faizah, N. Fita. (2023). Sharia Fintech: Opportunities and Challenges in Indonesia. *Journal of Islamic Economic and Business*. 3(1), 61-75.
- Akyuwen, Roberto & Waskito, Jaka. (2018). *Memahami Inklusi Keuangan*. Yogyakarta. Sekolah Pascasarjana Universitas Gadjah Mada
- Ariff, M. (2006). Islamic banking in Malaysia: Unchartered waters. *International Journal of Islamic and Middle Eastern Finance and Management*, 1(1), 54-74.
- Beck, T., Demirgüç-Kunt, A., & Levine, R. (2007). Finance, inequality, and poverty: Cross-country evidence. *Journal of Economic Growth*, 12(1), 27-49.
- Dinar Standard. (2022). *Global Islamic Fintech Report 2022*. <https://cdn.salaamgateway.com/>
- El-Galfy, A. S., et al. (2021). Fintech-based Islamic crowdfunding platforms: A critical review.



- Journal of Islamic Accounting and Business Research, 12(3), 583-600.
- Hassan, M. K. (2019). *Islamic Finance: Rules, Markets and Future Prospects*. Routledge.
- Kahf, M. (2010). Islamic economics: Notes on definition and methodology. In *Handbook of Islamic banking* (pp. 3-21). Edward Elgar Publishing.
- Khan, F., et al. (2017). *Critical analysis of Islamic banking and finance*. Springer.
- Khan, F. A., & Bhatti, M. I. (2019). FinTech: Financial inclusion and Islamic finance. *Journal of Islamic Marketing*, 10(3), 806-821.
- Mansour, M. (2018). Financial inclusion and economic development: A critical view. *Cogent Economics & Finance*, 6(1), 1445360.
- Otoritas Jasa Keuangan. (2022). *Survey Nasional Literasi dan Inklusi Keuangan (SNLIK)*. <https://ojk.go.id/id/>
- Rinaldi, Alfian (2020). *Potensi Fintech Syariah Di Desa Terhadap Pengembangan Pelaku Umkm (Studi Pada Pelaku Umkm Di Desa Tajurhalang, Kabupaten Bogor)*. Sarjana thesis, Universitas Brawijaya
- RISSC. (2022). *The Muslim 500*. The Royal Islamic Strategic Studies Centre. <https://rissc.jo/>
- Rosly, S. A. (2016). *Critical issues on Islamic banking and financial markets: Islamic economics, banking, and finance*. Pearson UK.
- Siddiqui, Z. (2013). Inclusion of the poor in Islamic finance: Maqasid al-Shari'ah as a means to social inclusion. In *Handbook of Islamic banking* (pp. 431-444). Edward Elgar Publishing.
- United Nation. (2023). *Sustainable Development Goals (SDGs)*. <https://www.un.org/>
- Zakah, M. S. (2018). The potential of fintech in Islamic finance: A survey of the literature. *Journal of Islamic Accounting and Business Research*, 9(3), 272-290.