Islamic Fintech Lending and Shari'ah Governance: Efforts Toward Achieving Inclusive and Transparent Finance

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Abstract: The rapid growth of Islamic fintech lending in Indonesia presents strategic opportunities for enhancing financial inclusion in compliance with Shari'ah principles. Nevertheless, regulatory dynamics, diverse business models, and varying institutional capacities continue to pose challenges in implementing an effective Shari'ah Governance Framework (SGF). This article aims to analyse the key issues in SGF implementation within Indonesia's Islamic fintech lending sector and to propose forward-looking, sustainable solutions. The study employs a normative juridical approach, examining statutory regulations, fatwas issued by the National Shari'ah Board, conducting a literature review, and conducting in-depth interviews with relevant stakeholders. The findings reveal gaps between normative provisions and operational practices, limited competency among members of the Shari'ah Supervisory Board (SSB) at the corporate level, and a weak integration of oversight between financial authorities and fatwa-issuing bodies. As a solution, this article recommends strengthening SGF standards by adopting international best practices, enhancing the capacity and certification of SSB members, integrating technology-based supervisory systems, and harmonising cross-institutional regulations. The implementation of these measures is expected to improve credibility, Shari'ah compliance, and the competitiveness of Islamic fintech lending in Indonesia on a sustainable basis.

Keywords: Shari'ah Governance Framework; Islamic Fintech Lending; Regulation; Shari'ah Compliance

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I. INTRODUCTION

Over the past decade, the development of financial technology (fintech) has brought significant changes to the global financial industry landscape.[1] One of the fastest-growing models is peer-to-

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[1] Egi Arvian Firmansyah and Mokhamad Anwar, 'Islamic Financial Technology (Fintech): Its Challenges and Prospect' (2019) 273 (18) Advances in Social Science, Education and Humanities Research 52, 58; Dao Ha, Phuong

peer (P2P) lending, which provides access to alternative financing outside the traditional banking system.[2] Various industry reports indicate that the global fintech lending market has experienced substantial growth, driven by digitalisation, broader internet access, and increasing public demand for faster, more practical, and more affordable financial services.[3]

In many developing countries, fintech lending plays a crucial role in expanding financial inclusion, particularly for the unbanked (those with no access to banking services) and the underbanked (those with limited access to formal financial services).[4] Thanks to their relatively efficient cost structures, these platforms can reach community segments and micro, small, and medium enterprises (MSMEs), which conventional financial institutions often underserve.[5]

Within Islamic finance, the emergence of Islamic fintech lending presents both strategic opportunities and unique challenges.[6] Unlike conventional fintech, which primarily emphasises efficiency and accessibility, Islamic fintech must also remain consistent with Islamic legal principles, including the prohibitions against *riba* (interest), *gharar* (excessive uncertainty), and *maisir* (speculation).[7] Consequently, every Islamic fintech innovation must be developed using Shari'ah-compliant contracts such as (cost-plus sale), *ijārah* (leasing), *mushārakah* (partnership), and *qard al-ḥasan* (benevolent loan).[8]

The growth of Islamic fintech lending has been particularly significant in countries with large Muslim populations, such as Indonesia, Malaysia, the United Arab Emirates, and Pakistan.[9] In Indonesia, this sector has expanded rapidly, making the country one of the largest Islamic fintech markets, supported by regulations from the Financial Services Authority (Otoritas Jasa Keuangan, OJK) and the role of the National Shari'ah Board–Indonesian Ulema Council (DSN-MUI).[10]

Le, and Duc Khuong Nguyen, 'Financial Inclusion and Fintech: A State-of-the-Art Systematic Literature Review' (2025) 11 (1) Financial Innovation 76.

[2] Sugeng, Clara Ignatia Tobing, and Rona Apriana Fajarwati, 'Indonesian Fintech: Business Ecosystem and Regulation' (2020) 5 (2) Diponegoro Law Review 277-295.

[3] Paolo Pietro Biancone, Silvana Secinaro, and Mohamad Kamal, 'Crowdfunding and Fintech : Business Model Sharia Compliant' (2019) 12 (1) EJIF: European Journal of Islamic Finance 1-10; Kiheung Nam, Zoonky Lee, and Bong Gyou Lee, 'How Internet has Reshaped the User Experience of Banking Service?' (2016) 10 (2) KSII Transactions on Internet and Information Systems 684-702.

[4] Adi Nur Rohman et al., *Ekosistem Bisnis dan Regulasi Fintech Syariah Dalam Perspektif Keamanan Ekonomi* (in Indonesian) [*The Business Ecosystem and Regulation of Shari'ah Fintech from the Perspective of Economic Security*] (Banyumas: CV. Pena Persada 2021) 23.

[5] Lilik Rahmawati et al, 'Fintech Syariah: Manfaat Dan Problematika Penerapan Pada UMKM' (in Indonesian) ['Sharia Fintech: Benefits and Challenges of Implementation for MSMEs'] (2020) 5 (1) Masharif al-Syariah: Jurnal Ekonomi dan Perbankan Syariah 83-84.

[6] Hida Hiyanti et al., 'Peluang dan Tantangan Fintech (Financial Technology) Syariah di Indonesia' (in Indonesian) ['Opportunities and Challenges of Sharia (Islamic) Financial Technology in Indonesia'] (2019) 5 (3) Jurnal Ilmiah Ekonomi Islam 326-233.

[7] Mohammad Ashraful Ferdous Chowdhury, 'Why Islamic finance is different? A Short Review of Islamic Jurisprudential Interpretation about Usury, Ambiguity (Gharar) Gambling (Maysir) and Exploitative Commercial Arbitrage (Talaqi alRukban)' (2015) 3 (3) Journal of Emerging Economies and Islamic Research 69.

[8] Abbas Arfan et al., 'The Implementation of Maqashid Sharia: Heterogeneity of Scholars' Fatwas Towards Islamic Banking Contracts' (2024) 32 (1) Legality: Jurnal Ilmiah Hukum 105-128.

[9] Zaki Ahmad et al., 'A Comparative Analysis of Shariah Governance Framework of Islamic Bank in Malaysia and Pakistan' (2023) 3 (1) Talaa : Journal of Islamic Finance 1–17.

[10] Lukman Hakim et al., 'The Role of Fintech Lending in Expanding Sharia Financial Inclusion and Human Development in Indonesia' (2024) 13 (1) Share: Jurnal Ekonomi dan Keuangan Islam 299–321.

Shari'ah-based fintech lending is expected to strengthen the Islamic financial ecosystem while contributing to achieving the Sustainable Development Goals by expanding access to financing for MSMEs and vulnerable groups.[11]

Nevertheless, the development of Islamic fintech lending still faces several challenges, including limited comprehensive regulation, low public literacy in Islamic finance, and an urgent need for a stronger Shari'ah governance framework to ensure transparency, accountability, and compliance.[12] Accordingly, examining the relationship between Islamic fintech lending and the Shari'ah Governance Framework (SGF) becomes highly relevant, especially in advancing the creation of a more inclusive and transparent financial system.

Although studies on fintech lending and Islamic finance have made significant progress in recent years, research gaps remain, underscoring the importance of further research on Islamic fintech lending and Shari'ah governance. Most existing studies have focused on the growth of conventional fintech, particularly its business models, regulations, and implications for financial inclusion.[13] Research on Shari'ah-based fintech remains relatively limited, especially in the context of lending platforms, which differ from other fintech sectors such as payments or investments. Similarly, research on Shari'ah governance has rarely been integrated into a comprehensive governance framework, even though the success of Islamic fintech lending depends heavily on the effectiveness of Shari'ah governance in ensuring compliance and promoting transparency.[14]

Moreover, technological tools such as blockchain, artificial intelligence (AI), and smart contracts hold significant potential to enhance transparency, accountability, and Shari'ah compliance.[15] However, research on their application in Islamic fintech lending remains limited. From a regulatory perspective, each country has distinct fintech and Shari'ah-related regulations, and the literature has yet to formulate a regulatory or governance model that serves as a global reference. This creates a gap in understanding how Islamic fintech lending can consistently contribute to financial inclusion and transparency across jurisdictions.

This study aims to address these research gaps by providing both a conceptual and normative analysis of Islamic fintech lending within the framework of Shari'ah governance. It not only emphasises theoretical understanding but also explores the potential role of Islamic fintech in building a more inclusive and transparent financial system. Therefore, this research is directed toward answering two main questions: 1) How are the concepts and principles of Shari'ah governance implemented in the practice of Islamic fintech lending? 2) How can Shari'ah

[11] Muneer M. Alshater et al., 'Fintech in islamic finance literature: A review' (2022) 8 (9) Heliyon e10385.
[12] ibid.
[13] Daniela Gabor and Sally Brooks, 'The digital revolution in financial inclusion: international development in the fintech era' (2017) 22 (4) New Political Economy 423, 436.
[14] Annisa Adha Minaryanti and Muhammad Iman Sastra Mihajat, 'A systematic literature review on the role of sharia governance in improving financial performance in sharia banking' (2023) 15 (4) Journal of Islamic Accounting and Business Research 553, 568.
[15] Harjoni Desky and A. K. Mahbubul Hye, 'Exploring Smart Contracts In Islamic Finance: Blockchain-Based Shariah-Compliant Transactions' (2025) 7 (1) AT-TIJARAH: Jurnal Penelitian Keuangan dan Perbankan Syariah 50, 61.

governance strengthen transparency and accountability in Islamic fintech lending services to realise inclusive finance?

The article is structured as follows. Part I describes the rationale for the issues raised. Part II of the article describes the conception and position of Islamic fintech lending in Indonesia. Part III of the article highlights the position of the Shari'ah governance framework. This report analyses the concepts and core pillars of the Shari'ah governance framework. Part IV presents a new perspective. This part highlights the contribution of Shari'ah fintech lending to financial inclusion. Part V critically examines the analysis of the link between Islamic fintech lending and Shari'ah governance. Part VI concludes that Shari'ah-compliant fintech lending is an essential instrument for advancing financial inclusion, particularly in developing countries with majority-Muslim populations. By utilising digital technology, Shari'ah fintech can reach unbanked and underbanked groups and provide financing to MSMEs and marginalised communities.

II. ISLAMIC FINTECH LENDING IN INDONESIA

Islamic fintech lending (P2P/Shari'ah fintech lending) in Indonesia emerged as a response to the need for digital financing solutions that comply with Shari'ah principles (free from *riba*, minimising *gharar* and *maysir*) while leveraging technological capabilities to expand access to underbanked segments, particularly micro MSMEs.[16] National regulatory developments, such as the revision of P2P regulations in late 2024, reflect policymakers' efforts to balance technological innovation and consumer protection within the fintech ecosystem.

In academic and policy discourse, Shari'ah-compliant P2P lending is defined as a technology-based financing service that connects fund providers (investors) with fund recipients (businesses or individuals), with contractual structures and value flows packaged in Shari'ah-compliant transactions to avoid conventional interest-based mechanisms.[17] In the Indonesian context, legal literature and case studies emphasise that such practices often take the form of digital platforms applying internal *fatwa* (a religious ruling issued by an Islamic scholar) or Shari'ah supervisory boards to ensure product compliance.[18]

The rise of Islamic fintech lending in Indonesia was initially driven by the need to provide alternative financing consistent with Shari'ah principles, particularly for communities and MSMEs that both conventional financial institutions and Islamic banks often underserved. This model is regulated by the Financial Services Authority (OJK) through the framework for peer-to-peer (P2P) lending, and overseen by the DSN-MUI to ensure that products and contracts comply with Islamic law. Thus, Shari'ah fintech lending occupies a dual position: as part of the legally recognised formal financial system under OJK, and as a financial instrument bound to Shari'ah *fatwa* .[19]

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[16] Mustapha Abdullah Kuyateh, 'Shariah Compliance Prohibitions in Islamic Banking and Finance: The Case of Riba, Gharar and Maysir' (2025) 42 (2) Journal of Islamic Banking & Finance 425.
[17] Adi Nur Rohman, 'Urgensi Pengaturan Fintech Lending Syariah Di Indonesia: Analisis Perlindungan Hukum Bagi Pengguna Layanan' (in Indonesian) ['The Urgency of Regulating Sharia Fintech Lending in Indonesia: An Analysis of Legal Protection for Service Users '] (2023) 20 (1) Jurnal Legislasi Indonesia 16, 27.
[18] Sugeng (n 2) 143.
[19] Faizi Faizi et al., 'Ensuring Shariah Compliance in the Fintech: A Comprehensive Analysis from Indonesia' (2025) 14 (6) Qualitative Research in Financial Markets 14.

The growth of Shari'ah fintech lending in Indonesia has been significant in recent years. Since OJK first issued regulations on P2P lending in 2016, the number of Shari'ah fintech platforms has continued to increase. Their business models offer convenient access, cost efficiency, and transactional transparency by utilising digital technology. This has attracted unbanked and underbanked communities that previously faced difficulties obtaining financing through traditional banking channels. Moreover, Shari'ah fintech supports the national financial inclusion agenda, with the government targeting expanded access to financial services for all societal groups.

At the same time, the challenges facing Islamic fintech lending are substantial. Public literacy in Islamic finance remains limited, default risks are relatively high, and robust governance systems are needed to maintain public trust.[20] Furthermore, greater harmonisation between OJK regulations and DSN-MUI *fatwa* is necessary to ensure that all fintech products are genuinely consistent with Shari'ah principles. Nevertheless, technological innovations such as blockchain, smart contracts, and artificial intelligence (AI) hold significant potential for improving transparency, accountability, and compliance in the industry.

Currently, Islamic fintech lending in Indonesia occupies a strategic position as a bridge between society's financing needs, minimal and medium-sized enterprises (MSMEs), and Islamic financial principles rooted in Islamic values.[21] Its rapid growth highlights its potential to strengthen the national Islamic economic ecosystem, though stronger regulation, oversight, and financial literacy remain required for it to function optimally and sustainably. Shari'ah fintech lending in Indonesia is experiencing notable growth, positioning the country as a key player in the global Islamic fintech landscape. Ranked third globally in terms of Islamic fintech providers and financing volume, Indonesia also holds the highest number of Islamic fintech companies worldwide. This growth is driven by strong demand for ethical, Shari'ah-compliant financial services, particularly among the Muslim-majority population and underserved MSMEs. However, the sector still faces critical challenges, including limited regulatory frameworks specifically tailored for Shari'ah fintech, low public awareness of Islamic financial principles, and a shortage of professionals skilled in both Shari'ah law and digital finance. Furthermore, the lack of apparent legal certainty and fragmented oversight among regulatory bodies, such as OJK, DSN-MUI, and Bank Indonesia, hampers cohesive development. Despite these obstacles, the increasing digital penetration, rising public interest in ethical finance, and ongoing regulatory support offer promising opportunities for Shari'ah fintech lending to further contribute to inclusive and sustainable financial growth in Indonesia.

III. SHARI'AH GOVERNANCE FRAMEWORK: CONCEPTS AND CORE PILLARS

The Shari'ah Governance Framework (SGF) is a specialised governance framework designed to ensure that all activities, products, and processes within Islamic financial institutions align with

[20] Astri Asih Kusmantari, 'Enhancing Financial Stability through Islamic Financial Planning: Literacy, Trust, and Investment Strategies in Indonesia' (2024) 1 (3) Social and Economic Bulletin 192, 198.
[21] Sara Cherqaoui, 'The Role of Islamic Finance in Unlocking the Potential of Micro-Small and Medium-Sized Enterprises and the Role of Fintech' (2022) 9 (3) European Journal of Islamic Finance 23.

Islamic Shari'ah principles.[22] In the context of Shari'ah fintech lending, SGF is essential because digital innovation often introduces new complexities that could give rise to legal uncertainty (*gharar*) or practices that deviate from Shari'ah principles. SGF therefore serves not only as a guideline for Shari'ah compliance but also as a mechanism for building public trust, strengthening accountability, and maintaining the integrity of the Islamic financial system.[23]

According to the Islamic Financial Services Board (IFSB), SGF comprises a set of institutional mechanisms that regulate decision-making, oversight, and the evaluation of Shari'ah compliance within financial institutions.[24] SGF extends beyond formal compliance to embody values of trust, justice, and transparency, which constitute the core of the Islamic financial system. Within governance discourse, SGF is viewed as a dual governance system that integrates conventional corporate governance principles with Shari'ah supervision.[25] It distinguishes Islamic financial institutions from conventional ones by holding them accountable not only to shareholders and regulators but also to Shari'ah as a transcendent normative source.[26]

Accordingly, SGF is positioned as an integral part of corporate governance, emphasising not only financial accountability and stakeholder protection but also Shari'ah compliance as a core element. SGF incorporates three main functions:[27]

A. External Regulation (State and Financial Authorities)

External regulation functions are carried out by state authorities and financial sector regulators, such as the Financial Services Authority (Otoritas Jasa Keuangan, OJK) in Indonesia or Bank Negara Malaysia. These regulations serve as a normative framework that establishes the rules of engagement for all players within the Shari'ah fintech industry. They encompass various aspects, including licensing, operational standards, reporting obligations, and sanctions for non-compliance. External regulation provides a legal umbrella that ensures fintech lending operations adhere not only to Shari'ah principles but also to the principles of prudence, financial system stability, and consumer protection. This regulatory oversight is crucial for fostering trust, maintaining market integrity, and supporting the sustainable growth of the Shari'ah-compliant digital financial ecosystem.

B. Internal Oversight (Boards of Commissioners and Management)

[22] Yunice Karina Tumewang et al., 'An extended review on Sharia governance studies from 1985 to 2022' (2023) 16 (2) Journal of Islamic Accounting and Business Research 321, 347.

[23] Md. Kausar Alam, Fakir Tajul Islam, and Mahfuza Kamal Runy, 'Why Is Shariah Governance Framework Important for Islamic banks?' (2021) 5 (2) Asian Journal of Economics and Banking 158, 172.

[24] Muhammad Issyam, Rusni Bt Hasan, and Syed Musa Alhabshi, 'Shariah Governance Framework for Islamic Co-operatives as An Integral Social Institution in Malaysia' (2016) 24 (1) Intellectual Discourse 477–500.

[25] Naji Mansour Nomran and Razali Haron, 'Dual Board Governance Structure and Multi-Bank Performance: A Comparative Analysis Between Islamic Banks In Southeast Asia and GCC Countries' (2019) 19 (6) Corporate Governance 1377-1402.

[26] Muhd Issyam Itam Ismail and Rusni Hassan, 'Shari'ah Committee Composition in Malaysian Islamic Financial Institutions: Post Implementation of SGF 2010 and IFSA 2013' (2016) 5 (2) Journal of Islamic Finance 28–36.

[27] Abdulrahman Alnofli and Engku Rabiah Adawiah Engku Ali, 'The Role of Key Functions of Shariah Governance in Islamic Financial Institutions (IFIs)' (2020) 4 (1) International Journal of Fiqh and Usul al-Fiqh Studies 98-107.

At the institutional level, internal supervision is carried out by the board of commissioners and management. The board of commissioners serves as a strategic oversight body, ensuring the company's policy direction aligns with external regulations and the principles of good corporate governance. Meanwhile, management is responsible for the technical implementation of daily operations, including product design, risk management, and the development of transparent systems. This internal supervisory function is crucial to ensuring that all business processes comply with regulatory standards and Shari'ah guidelines.

C. Shari'ah Oversight (Shari'ah Supervisory Board, SSB)

The third element is the Shari'ah Supervisory Board (Dewan Pengawas Syariah, DPS), which holds the authority to assess, oversee, and issue *fatwa* regarding the compliance of products and services with Islamic legal principles. The DPS acts as the guardian of Shari'ah compliance, playing a critical role from the product design stage to operational evaluation. Its presence is a key distinguishing factor between Islamic financial institutions and their conventional counterparts, as its function extends beyond legal formality to encompass religious and ethical dimensions.[28]

These three functions are systematically integrated within SGF through coordinated mechanisms. External regulation provides the legal framework and minimum standards; internal oversight ensures operational implementation in line with governance principles; and Shari'ah oversight safeguards compliance with Islamic values. Together, these elements establish a multi-layered governance system that compensates for weaknesses in any single function by reinforcing the others.[29] The result is a more comprehensive, accountable, and credible oversight system that enhances public trust in the Shari'ah fintech lending industry.

In its development, the Shari'ah Governance Framework (SGF) has several fundamental pillars that serve as guidelines for operators to ensure conformity with both good governance and Shari'ah principles. These pillars include:

1. Regulatory Framework and Normative Standards

The first pillar of the Shari'ah Governance Framework (SGF) is the existence of a clear regulatory foundation and measurable normative standards. External regulations issued by financial or state authorities serve to provide legal certainty, establish minimum standards, and regulate licensing, reporting, and sanction mechanisms.[30] On the other hand, normative standards also derive from *fatwa* issued by the National Shari'ah Council (Dewan Syariah Nasional, DSN) and by international *fatwa* institutions such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB). This pillar underscores that Shari'ah compliance is not merely an internal matter for institutions, but is also an integral part of a binding legal system. In Indonesia, this framework is embodied in regulations

[28] Faiza Az Zahra and Nabila Khoirunnisa, 'The Role of the Sharia Supervisory Board on Muamalah Principles Compliance in Islamic Financial Institutions' (2025) 3 (2) Journal of Islamic Contemporary Accounting and Business 107, 110.
[29] Ahmad et al. (n 9) 116.
[30] Abdulrahman B AlQassar and Habib Ahmed, 'Regulatory Regimes for Sharīʿah Governance: A Framework of Assessment and Analysis' (2022) 23 (2) Journal of Banking Regulation 139, 154.

from the Financial Services Authority (Otoritas Jasa Keuangan, OJK), particularly OJK regulations on information technology-based lending services, as well as specific provisions for Shari'ah fintech. From the normative side, the National Shari'ah Council of the Indonesian Ulema Council (DSN-MUI) plays a key role by issuing *fatwa* on contracts used in Shari'ah fintech lending, such as *qardh* (loan), *murabahah* (cost-plus sale), or *wakalah bil ujrah* (agency with a fee). This ensures that Shari'ah fintech operations comply with both state regulations and Islamic legal norms.[31]

2. *Shari'ah Supervisory Structure*

The second pillar is the existence of an effective Shari'ah supervisory structure, typically embodied in the Shari'ah Supervisory Board (Dewan Pengawas Syariah, DPS). This board is responsible for ensuring that every product, contract (*akad*), and operational activity of the institution complies with Islamic legal principles. In addition to issuing *fatwa*, the DPS plays a critical role in monitoring, conducting Shari'ah audits, and providing recommendations for improvement. This pillar positions the DPS as the gatekeeper of Shari'ah compliance, which fundamentally distinguishes Islamic financial institutions from their conventional counterparts. At the institutional level, a DPS is mandatory within the organisational structure of Shari'ah fintech companies. The DPS is tasked with providing advisory opinions, issuing operational *fatwa*, and overseeing the Shari'ah conformity of products and transactions. For example, in Shari'ah fintech lending in Indonesia, the DPS ensures that financing contracts do not involve *riba* (usury) or *gharar* (excessive uncertainty), and that returns earned by investors align with Shari'ah principles. Moreover, the DPS serves as a vital link between the National Shari'ah Council (DSN-MUI) and the management of fintech institutions, ensuring that Shari'ah guidelines are consistently upheld in practice.

3. *Internal Governance and Risk Management*

The Shari'ah Governance Framework (SGF) also emphasises the importance of internal governance that is transparent, accountable, and grounded in the principle of prudence. The board of commissioners, directors, and management are responsible for integrating Shari'ah principles into business policies, risk management, and internal control systems. Strong internal governance ensures that institutions focus not only on formal compliance but also on upholding ethical values, fairness, and honesty in every transaction.[32] In Indonesia, the Financial Services Authority (OJK) mandates sound governance through the implementation of risk management and prudential principles.[33] Shari'ah fintech companies are required to maintain robust technological systems, protect customer data, and establish mechanisms to mitigate financing risks. Both management and the board of commissioners are expected to incorporate Shari'ah values into business

[31] Shakir Ullah, Ian A. Harwood and Dima Jamali, 'Fatwa Repositioning: The Hidden Struggle for Shari'a Compliance Within Islamic Financial Institutions' (2018) 149 (4) Journal of Business Ethics 895-917.

[32] Raden Ani Eko Wahyuni and Bambang Eko Turisno, 'Praktik Finansial Teknologi Ilegal Dalam Bentuk Pinjaman Online Ditinjau Dari Etika Bisnis' (in Indonesian) ['Illegal Financial Technology Practices in the Form of Online Loans Viewed from Business Ethics'] (2019) 1 (3) Jurnal Pembangunan Hukum Indonesia 379-391.

[33] Ratna Hartanto and Juliyani Purnama Ramli, 'Hubungan Hukum Para Pihak Dalam Peer To Peer Lending' (in Indonesian) ['Legal Relationships Among Parties in Peer-to-Peer (P2P) Lending'] (2018) 25 (2) Jurnal Hukum Ius Quia Iustum 320-338.

policies—for example, by ensuring transparency of information for both borrowers and funders, and by avoiding practices that could harm either party.

4. Shari'ah Compliance and Audit Mechanisms

The fourth pillar is the Shari'ah audit mechanism, which is conducted periodically to assess the extent to which an institution's operations align with Shari'ah principles. This audit can be carried out internally or externally and typically involves the Shari'ah Supervisory Board (DPS) or independent auditors with expertise in Islamic finance. The mechanism serves as a tool for evaluation and correction, enabling the early identification and resolution of any potential non-compliance. Shari'ah audits also enhance public accountability, as the results are often disclosed in annual Shari'ah compliance reports. In Indonesia, Shari'ah audits are conducted both internally by the DPS and externally by public accountants with Shari'ah expertise. Some Shari'ah fintech companies have begun implementing annual Shari'ah audits, with findings reported to regulators and relevant stakeholders. These audits cover areas such as contract compliance, fund flows, and operational alignment with DSN-MUI *fatwa*. This mechanism is crucial for ensuring early detection of Shari'ah violations and maintaining the integrity of Shari'ah-compliant financial practices.

5. Transparency, Accountability, and Reporting

The final pillar of the Shari'ah Governance Framework (SGF) is transparency and accountability through open reporting to regulators, stakeholders, and the public.[34] Islamic financial institutions are required to prepare Shari'ah compliance reports that include information on products, operational practices, and recommendations from the Shari'ah Supervisory Board (DPS). This pillar ensures the existence of a disclosure mechanism that builds public trust while encouraging institutions to maintain the credibility and integrity of their Shari'ah compliance.[35] The Financial Services Authority (OJK) mandates fintech lending operators, including Shari'ah-based platforms, to submit periodic operational reports. Within the SGF context, this is complemented by Shari'ah compliance reports prepared by the DPS. For instance, several Shari'ah fintech providers in Indonesia have begun publishing annual reports detailing the contracts used, levels of Shari'ah compliance, and DPS recommendations. Such transparency is vital for fostering public confidence, particularly among investors and service users.

Overall, these five pillars form a comprehensive, multi-layered, and complementary governance framework. External regulation provides legal certainty; the SSB safeguards Shari'ah compliance; internal governance ensures sound operations; Shari'ah audits reinforce oversight; and transparency and accountability build public confidence. The synergy of these pillars establishes SGF as the foundation of sustainability and competitiveness for Islamic financial institutions, including fintech lending.

IV. CONTRIBUTION OF SHARI'AH FINTECH LENDING TO FINANCIAL INCLUSION

[34] Imran Hussain Minhas, *Shariah Governance for Islamic Financial Institutions* (Oxford: Routledge 2023) 170.
[35] Nina Febriana Dosinta and Khristina Yunita, 'Corporate governance and Islamic social reporting: Indonesia Islamic banking development roadmap era' (2024) 6 (1) Journal of Contemporary Accounting 27-41.

Shari'ah fintech lending plays a significant role in expanding financial inclusion, particularly in developing countries with large Muslim populations such as Indonesia. It provides a more inclusive financing alternative for unbanked and underbanked groups, who have traditionally faced barriers to accessing conventional banking services due to a lack of collateral, high administrative fees, strict regulatory requirements, religious considerations, or structural challenges such as high costs and physical distance.[36] By employing efficient, low-cost technology-based financing models, Shari'ah fintech lending can reach micro, small, and medium-sized enterprises (MSMEs) and individuals in remote areas that were previously excluded from the formal financial system.[37] Furthermore, the *Global Islamic Fintech Report 2024–2025* confirms that Shari'ah fintech has grown rapidly across Muslim-majority countries, making a positive contribution to financial inclusion. In particular, Shari'ah peer-to-peer (P2P) lending and digital payment solutions have become the main channels for reaching underserved businesses and consumers.[38]

Digital technology serves as the primary catalyst for expanding the reach of these services. Mobile applications, big data analytics, and more inclusive credit scoring algorithms enable Shari'ah fintech providers to assess financing eligibility without relying on conventional banking credit histories. This allows individuals without bank accounts or formal financial documents to access financing. Blockchain and smart contracts further enhance transaction transparency, reduce operational costs, and accelerate verification and disbursement processes.[39]

The integration of Shari'ah principles, such as justice, transparency, and the prohibition of *riba*, makes Shari'ah fintech lending more ethical and trustworthy. The principle of justice ensures that the relationship between lenders and borrowers is fair, fostering public confidence in the system. Transparency in contracts and transaction flows strengthens accountability and reduces the risk of fraud. Meanwhile, the prohibition of interest increases acceptance among Muslims who reject conventional finance. These features directly enhance public trust and participation, broadening access to Shari'ah fintech lending.

Thus, Shari'ah fintech lending functions not only as a financing instrument but also as an economic empowerment tool aligned with ethical and transparent principles. Technological innovations combined with Shari'ah values make the services more adaptive, inclusive, and sustainable, thereby supporting the achievement of the Sustainable Development Goals (SDGs) by improving equitable access to finance.[40]

Access to formal financial services is a key indicator in assessing a country's level of financial inclusion. The latest data from the *Global Findex Database 2021*, published by the World Bank, show that, despite significant progress over the past decade, around 1.4 billion adults worldwide remain unbanked—meaning they do not hold a bank account or account with another formal

[36] Dwi Jati Marta and Atikah Dewi Utami, 'Digital Financial Transformation: An Islamic Economic Analysis of Online Lending in the Era of Industrial Revolution 4.0' (2025) 1 (1) Journal of Islamic Law on Digital Economy and Business 53-64.
[37] Alshater et al. (n 11) 240.
[38] Dewi Hidayatun Nihayah, 'The Growth of Islamic Fintech: Opportunities and Challenges in The Digital Era' (2025) 1 (1) Murabahah: Journal of Islamic Economics 55–63.
[39] ibid.
[40] Alshater et al. (n 11) 243.

financial institution. Global account ownership increased from 51 per cent in 2011 to 76 per cent in 2021, primarily driven by the accelerated adoption of financial digitalisation and the widespread use of mobile money.[41]

Shari'ah fintech, as a digital financial innovation, addresses the limitations of conventional banking, especially in providing fair and inclusive access to financing. Unlike conventional fintech that relies on interest-based mechanisms, Shari'ah fintech applies contracts such as *murābaḥah* (cost-plus sale), *ijārah* (leasing), *mushārakah* (partnership), and *qard al-ḥasan* (benevolent loan). These financing models enable individuals, especially the unbanked and underbanked, to choose services suited to their needs and capacities, without being trapped in *riba*-based practices prohibited in Islam.

With its dynamic development, Shari'ah-based financing innovation represents a new direction for the financial ecosystem. Models such as BMT micro-fintech, online *muḍārabah*-based lending, smart contracts for Shari'ah financing, and hybrid socio-commercial platforms not only expand access but also promote financial practices rooted in justice, transparency, and public welfare (*maṣlaḥah*). The success of these models depends heavily on collaboration among regulators, Islamic financial institutions, fintech providers, and the community to build an inclusive, trustworthy, and sustainable system. Shari'ah financing innovations are evolving dynamically across jurisdictions, shaped by regulatory contexts, institutional capacity, and levels of technological adoption. Three notable case studies are Indonesia, Malaysia, and the Gulf region (Bahrain and Qatar), which together demonstrate how Shari'ah fintech models are reshaping the financial landscape to become more inclusive.[42]

Although each jurisdiction follows its own trajectory, the experiences of Indonesia, Malaysia, and the Gulf region reflect a shared direction toward building a more inclusive, transparent, and sustainable Islamic financial ecosystem. Table 1 presents a comparative overview of Shari'ah financing innovation models.

Table 1. Comparative Models of Shari'ah Financing Innovation in Indonesia, Malaysia, and the Gulf Region (Bahrain and Qatar)

Aspect	**Indonesia**	**Malaysia**	**The Gult Region (Bahrain & Qatar)**
Regulatory Framework	OJK through POJK Fintech & LPKSI Report (2023); Shari'ah fintech regulations still evolving	Securities Commission (SC) Malaysia: *Guidelines on Recognised Markets* (2024); *Guidelines on Islamic Capital Market Products* (2024); Bank Negara Malaysia	Bahrain: *Regulatory Sandbox Framework* (CBB); Qatar: *Islamic Finance Report 2025,* with a focus on investment and fintech

[41] World Bank, 'The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19' (Washington, DC: World Bank 2022) <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099818107072234182> accessed 4 December 2025.

[42] Ascarya Ascarya and Ali Sakti, 'Designing Micro-Fintech Models for Islamic Micro Financial Institutions in Indonesia' (2022) 15 (2) International Journal of Islamic and Middle Eastern Finance and Management 236-254.

		(BNM): *Shari'ah Governance Policy Document*	
Innovation Models	Shari'ah P2P lending, Shari'ah e-wallets, Digital Financial Services (LKD) agents, integration of *zakat* (giving in charity)and *waqf* (a charitable endowment) digital platforms for microfinance	Shari'ah P2P lending and equity crowdfunding under SC supervision; Shari'ah digital banking with Shari'ah-compliant APIs	Bahrain: smart contract–based financing and AI-enabled products; Qatar: growth of wealthtech, micro-takaful, and Shari'ah retail financing
Shari'ah Governance	Fragmented; DSN-MUI plays an important role, but standardisation across fintech platforms is inconsistent.	Strong standardisation through SC & BNM; every product must undergo Shari'ah advisory and auditable Shari'ah reviews	Bahrain: sandbox for testing Shari'ah products before full market launch; Qatar: regulations increasingly incorporate Shari'ah-compliance certification
Inclusion Focus	MSMEs, micro-entrepreneurs, rural communities, and underbanked populations	Retail investors, MSMEs, and integration with the Islamic capital market	High technological adoption, international scale orientation, and Shari'ah product diversification
Key Challenges	Low financial literacy, consumer protection, illegal fintech operators, and a lack of uniform Shari'ah standards	High compliance costs, limited adoption among non-Muslim consumers	Bahrain: sustainability of sandbox beyond trial phase; Qatar: reliance on large-scale investment and cross-border regulatory alignment

The comparative overview in Table 1 illustrates the diverse yet complementary trajectories of Shari'ah financing innovation in Indonesia, Malaysia, and the Gulf region. The differences are most evident in regulatory frameworks, innovation models, Shari'ah governance, the focus on inclusion, and key challenges. Indonesia stands out for its community-based approach to inclusion, where innovations are specifically designed to reach unbanked and underbanked groups.

Malaysia takes a different approach by emphasising regulatory certainty and disciplined Shari'ah governance. The Securities Commission (SC) and Bank Negara Malaysia (BNM) provide a comprehensive regulatory framework, encompassing guidelines ranging from the Guidelines on

Recognised Markets to the Shari'ah Governance Policy Document.[43] Every Shari'ah fintech product must undergo a well-documented Shari'ah audit and review process. This approach fosters a stable ecosystem, enhances investor confidence, and facilitates the integration of digital innovation into the Shari'ah-compliant capital market. However, the high compliance costs can pose barriers for smaller players, and adoption among non-Muslim communities remains relatively low due to the products' branding, which is strongly exclusive to Shari'ah principles.

Meanwhile, in the Gulf region, particularly Bahrain and Qatar, these countries serve as experimental laboratories for global Shari'ah fintech innovation. The Central Bank of Bahrain offers a Regulatory Sandbox that enables the testing of products based on smart contracts and artificial intelligence prior to their full market launch.[44] Qatar, on the other hand, has experienced a significant surge in Shari'ah fintech transactions, with a focus on wealth-tech, micro-takaful, and Shari'ah retail financing. The region's orientation is not merely toward local financial inclusion but also toward positioning itself as an international Shari'ah financial hub. Challenges include product sustainability after the testing phase and reliance on significant investments that are vulnerable to global economic fluctuations.[45]

From a comparative perspective, Indonesia represents a bottom-up model focused on grassroots empowerment, while Malaysia demonstrates a middle-up model that balances market interests with Shari'ah certainty. Bahrain and Qatar, on the other hand, adopt a top-down model that emphasises global technological leadership. Collectively, these cases provide valuable lessons: that strong social inclusion must be accompanied by clear regulatory frameworks, and by the courage to embrace frontier technologies.

In the Indonesian context, these comparative insights underscore the importance of strengthening Shari'ah governance without losing the nation's core advantage, broad-based financial inclusion. Unlike Malaysia's highly institutionalised model or the Gulf's technology-driven, investment-intensive approach, Indonesia's Islamic fintech ecosystem has grown from community needs, MSME financing gaps, and grassroots digital adoption. This bottom-up trajectory has produced rapid expansion but also uneven governance quality, variations in contract implementation, and a heavy reliance on platform-level interpretations of DSN-MUI fatwas. The comparison highlights that Indonesia must now move toward greater regulatory clarity, similar to Malaysia's disciplined governance, while still maintaining its accessibility for smaller fintech players and community-based financial actors.[46]

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[43] Karimatul Khasanah and Mohd Mahyeddin Mohd Salleh, 'Legal Frameworks for Consumer Protection in Digital Sharia Banking: A Comparative Study Between Indonesia and Malaysia' (2025) 15 (1) El-Qist: Journal of Islamic Economics and Business (JIEB) 45, 60.

[44] R. AbuRaya, Y. Abdulla, S. Kumaraswamy and R. Ebrahim, 'FinTech Global Outlook and The Bahraini Landscape: Empirical Exploratory Analysis and Documentary Evidence' *International Conference on Decision Aid Sciences and Application* (DASA) (Bahrain: 2021) 1007, 1015 <https://ieeexplore.ieee.org/document/9682218> accessed 30 November 2025.

[45] Amin, Md Fouad Bin. 'Application of Emerging FinTech in Islamic Finance Industry: Challenges and Opportunities in GCC countries' (2024) 2 (1) Proceeding Medan International Conference on Economic and Business 2.

[46] Sothy, Chak, Ravi Dara, and Livia Alves. 'Shariah Governance in Islamic Banking: A Study on the Challenges and Best Practices in Indonesia.' (2025) 3 (1) Sharia Oikonomia Law Journal 92, 103.

At the same time, the experience of Bahrain and Qatar shows the strategic value of integrating frontier technologies into Shari'ah governance, such as smart contract auditability, algorithmic transparency, and real-time compliance monitoring. For Indonesia, adopting these innovations would complement DSN-MUI's role and OJK's oversight by enabling more standardised, technology-enabled Shari'ah review mechanisms across all platforms, regardless of size. This could reduce compliance disparities, improve consumer protection, and elevate investor confidence without imposing prohibitive costs.[47] In essence, the lessons from Malaysia and the Gulf suggest that Indonesia should pursue a hybrid model: retaining its social-inclusion orientation, strengthening its regulatory and Shari'ah governance architecture, and selectively adopting advanced technological tools to ensure that rapid fintech growth does not compromise Shari'ah integrity or systemic stability.

V. CRITICAL ANALYSIS OF THE LINK BETWEEN ISLAMIC FINTECH LENDING AND SHARI'AH GOVERNANCE

The success of Islamic fintech lending is determined not only by technological sophistication and business models but also by credible, measurable, and auditable Shari'ah governance. Without a robust governance framework, innovation risks becoming a matter of "form over substance," where products appear Shari'ah-compliant in terminology but deviate in practice—for example, through hidden fee structures, unfair risk allocation, or debt collection processes that contradict Shari'ah ethics. Recent international standards emphasise that Shari'ah governance oversight is not merely a micro-level compliance issue but a key element of financial system stability and consumer protection.[48]

Two global standard-setting bodies provide both conceptual and operational foundations for these standards. In late 2024, AAOIFI issued a new package of governance standards clarifying the processes of Shari'ah decision-making, the mandate and independence of Shari'ah Supervisory Boards (SSBs), and the requirement for internal Shari'ah reviews and audits covering the entire product lifecycle.[49] These standards shift practice away from "ad hoc Shari'ah advisory" toward institutionalised, documented processes—spanning *ex ante* (contract design), ongoing monitoring, and *ex post* (reporting and corrective measures)[50]. Complementing this, IFSB-31 (2025) sets principles for effective cross-sector Shari'ah governance oversight, stressing that failures at a single institution can erode confidence and trigger systemic risk. The document calls on authorities to ensure clear supervisory expectations, fit-and-proper requirements for SSB members, traceability of decisions (audit trails), and harmonisation of practices to prevent regulatory arbitrage when platforms operate across jurisdictions.[51]

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[47] Khasanah and Salleh (n 43) 48.

[48] Islamic Financial Services Board (IFSB), *IFSB-31: Guiding Principles for Effective Supervision of Shariah Governance* (Kuala Lumpur: IFSB 2025) 1-3.

[49] AAOIFI, 'The AAOIFI Governance and Ethics Board Issues Governance Standard 18: Shari'ah Decision-Making Process' *Accounting and Auditing Organization For Islamic Financial Institutions* (Bahrain: 30 December 2024) <https://aaoifi.com/announcement/the-aaoifi-governance-and-ethics-board-ageb-issues-governance-standard-gs-18-shariah-decision-making-process/?lang=en> accessed 30 September 2025.

[50] Bank Negara Malaysia, *Shariah Governance Policy Document* (Kuala Lumpur: BNM 2019) 102.

[51] Securities Commission Malaysia, *Guidelines on Islamic Capital Market Products and Services* (Kuala Lumpur: SC 2024) 87.

Indonesia has taken a path of consolidation. On the prudential side, OJK Regulation 10/POJK.05/2022—updated through OJK 40/2024—governs Information Technology–Based Joint Financing Services (LPBBTI), including minimum capital, risk management, disclosure, and consumer protection. Shari'ah compliance, meanwhile, is anchored in DSN-MUI Fatwa No. 117/2018, which addresses IT-based financing services in accordance with Shari'ah principles. The synergy between OJK and DSN-MUI provides the basis for the legitimacy of Shari'ah fintech. The challenge lies in encouraging the standardisation of practices at the platform level (e.g., SOPs for ex ante contract review, compliance indicators, and *ex post* reporting) so that the quality of governance does not depend solely on the maturity of individual providers. From a global industry perspective, the Global Islamic Fintech Report 2024/25 emphasises that the scale and sustainability of Islamic fintech lending are heavily influenced by the quality of Shari'ah governance and transparency of costs/contracts, alongside data-driven underwriting and integration into daily payment ecosystems.

Overall, the relationship between Islamic fintech lending and Shari'ah governance is dialectical: Shari'ah fintech requires the SGF for legitimacy, while SGF itself must evolve in response to digital fintech developments. This critical analysis highlights that the success of Islamic financial inclusion through fintech cannot be separated from strengthening Shari'ah governance that is credible, adaptive, and technology-driven. Synergy between regulators, industry, and Shari'ah institutions is essential to close regulatory gaps and ensure that technological innovation does not compromise the fundamental principles of Shari'ah.[52]

In Indonesia, the push to create dedicated Shari'ah and accounting standards for Islamic fintech is not only possible but increasingly urgent as regulations become more complex. While OJK Regulation 10/2022 (as amended by 40/2024) and DSN-MUI Fatwa No. 117/2018 already serve as the basic reference for Shari'ah-compliant digital financing, both instruments were drafted around broad principles. They do not yet cover many new fintech models, such as algorithm-based *murabahah* (Islamic finance contract) pricing, digital *wakalah* (Contract of an agency) funding pools, tokenised receivables, or automated smart-contract execution. This gap has resulted in inconsistencies across platforms, particularly in how contracts are reviewed, risks are shared, fees are disclosed, and documentation is required for Shari'ah audits.[53] As Shari'ah-based P2P lending grows rapidly and fintech platforms become more embedded in national payment and digital-economy systems, Indonesia faces the danger of uneven Shari'ah governance and potential regulatory arbitrage among providers that rely on different interpretations of compliance.

Indonesia is well-positioned to lead the region by formulating fintech-specific Shari'ah and accounting standards through stronger collaboration among the OJK, DSN-MUI, the Komite Akuntansi Syariah (IAI), and industry bodies such as AFPI Syariah. Such standards could offer practical guidance on product structuring, define machine-readable Shari'ah indicators for digital audits, set precise governance requirements throughout the lifecycle of fintech products, and provide accounting rules tailored to platform-based financing, especially on classification, revenue recognition, and impairment. Formalising these standards would enhance the credibility and

[52] Achmad Fageh, 'Building a Synergy between the Halal Industry and the Green Industry in the Maqasid Syari'ah Review as the Basis of Islamic Economics' (2022) 5 (1) Journal of Islamic Economic Laws 139, 150.
[53] Rita Rahmawati, 'Sharia Compliance Analysis of Peer-to-Peer Lending Fintech Platforms in Indonesia' (2025) 4 (1) Journal of Social Science and Economics 121, 135.

resilience of Indonesia's Islamic fintech ecosystem, boost consumer protection, and position Indonesia as a regional contributor to standard-setting at the AAOIFI and IFSB levels. Over time, this would help advance Indonesia's broader goal of Islamic financial inclusion by ensuring that fintech innovation continues to reflect Shari'ah principles and ethical objectives.

VI. CONCLUSION

Islamic fintech lending has evolved into a crucial tool for promoting financial inclusion, particularly in developing countries with majority Muslim populations. By utilising digital technology, Shari'ah fintech can reach unbanked and underbanked groups and provide financing to MSMEs and marginalised communities that have traditionally been excluded from conventional financial services. Its contribution is both quantitative—in broadening financial access—and qualitative, by delivering services grounded in ethical and Shari'ah-based values such as justice, transparency, and the prohibition of *riba*, *gharar*, and *maysir*.

However, the effectiveness of Shari'ah fintech in achieving these goals relies heavily on the implementation of a robust Shari'ah Governance Framework (SGF). SGF integrates three levels of oversight: external regulation by financial authorities, internal oversight by company management, and Shari'ah supervision by Shari'ah Supervisory Boards. Together, these mechanisms ensure accountability, transparency, and Shari'ah compliance. With the support of technologies such as blockchain and smart contracts, Shari'ah governance can be further strengthened through enhanced efficiency, transparency, and accountability.

Overall, the close relationship between Islamic fintech lending and Shari'ah governance not only determines the success of Shari'ah fintech implementation but also directly impacts the creation of a more inclusive, transparent, and sustainable financial system. Strengthening governance and addressing institutional and regulatory challenges will position Islamic fintech lending as a key driver in building a credible Islamic financial ecosystem that supports the achievement of the Sustainable Development Goals.