

# Regulatory Frameworks In Islamic Fintech: Comparative Insights From Indonesia and Malaysia

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## Abstract

*Despite the rapid expansion of Islamic fintech in Indonesia and Malaysia, research comparing the legal and regulatory frameworks in both jurisdictions remains limited. This study addresses that gap by examining the differences and challenges within each country's legal infrastructure that impact the development and governance of Sharia-compliant financial technology. The objective of this research is to analyze and compare the regulatory systems in Indonesia and Malaysia to identify structural strengths, weaknesses, and their implications for legal certainty and financial innovation. Employing a normative juridical method with a comparative legal approach, the study analyzes statutory instruments, regulatory frameworks, and institutional roles in both countries. The findings reveal that Malaysia benefits from a more cohesive and structured legal framework under the Islamic Financial Services Act 2013, supervised by Bank Negara Malaysia and the Securities Commission, ensuring enforceable Sharia compliance and robust innovation support. In contrast, Indonesia's regulatory environment suffers from fragmented oversight between OJK and DSN-MUI, resulting in legal uncertainty and limited enforcement of Sharia principles. This research contributes to the field of Islamic financial law by offering policy recommendations to harmonize regulatory frameworks, enhance legal clarity, and promote the sustainable growth of Islamic fintech ecosystems in Southeast Asia.*

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## 1. Introduction

Fintech is an industry that is growing rapidly and has an important role in the transformation of the financial sector and the economy. The COVID-19 pandemic has accelerated digital technology adoption in the financial sector and the role of financial technology (fintech) firms in supporting households and businesses during the crisis and beyond.<sup>1</sup> Digital technology adoption in the financial sector, impacted the role of financial technology firms in supporting economic recovery.<sup>2</sup> Islamic Fintech has great potential, with the sector expected to play a role in recovery post-COVID-19.<sup>3</sup> Geographically speaking, Muslim-majority Southeast Asian countries are expected to provide Islamic fintech with the highest growth potential in 2020.<sup>4</sup> The proof is that based on Salaam Gateway data in 2021, Indonesia is the highest in total global fintech with a total of 64 Islamic fintech companies<sup>5</sup> and Malaysia is in fourth place with a total of 37 Islamic fintech companies.

Islamic fintech in Southeast Asia, particularly in Indonesia and Malaysia has experienced remarkable growth in recent years. This sector has become a driving force in Islamic finance, expanding access to financial services for underserved communities and advancing financial inclusion in line with the Sustainable Development Goals.<sup>6</sup> Indonesia and Malaysia now stand among the leading Islamic fintech markets; by 2021 Indonesia hosted the largest number of Islamic fintech firms globally (64 companies) while Malaysia ranked fourth with 37 companies. Such rapid expansion underscores Islamic fintech's potential to foster inclusive economic growth by reaching unbanked

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<sup>1</sup> Chen Siqi et al., "Application of Blockchain Technology in Cross-Border Telecommunications Network Fraud to Ensure China's Judicial Justice," *Jurnal IUS Kajian Hukum Dan Keadilan* 12, no. 3 (2024): 472–86, <https://doi.org/10.29303/ius.v12i3.1554>.

<sup>2</sup> John Beirne et al., *Fintech and COVID-19: Impacts, Challenges, and Policy Priorities for Asia* (Asian Development Bank, 2022), <https://www.adb.org/publications/fintech-and-covid-19-impacts-challenges-and-policy-priorities-for-asia>.

<sup>3</sup> Mustafa Raza Rabbani et al., "Exploring the Role of Islamic Fintech in Combating the Aftershocks of COVID-19: The Open Social Innovation of the Islamic Financial System," *Journal of Open Innovation: Technology, Market, and Complexity* 7, no. 2 (2021): 136, <https://doi.org/10.3390/joitmc7020136>.

<sup>4</sup> admin, "Why Islamic Fintech Is Relevant amid COVID-19 Pandemic," *Tranglo*, May 28, 2020, <https://tranglo.com/blog/why-islamic-fintech-is-relevant-amid-covid-19-pandemic/>.

<sup>5</sup> Muhammad Muslih and Supeno Supeno, "Financial Technology: Digital Legal Challenges and Indonesia's Economic Prospects After Covid-19 Outbreak," *Legality: Jurnal Ilmiah Hukum* 30, no. 2 (2022): 255–66, <https://doi.org/10.22219/ljih.v30i2.22784>.

<sup>6</sup> Sofya Glavina et al., "Assessment of the Competitiveness of Islamic Fintech Implementation: A Composite Indicator for Cross-Country Analysis," *Journal of Risk and Financial Management* 14, no. 12 (2021): 12, <https://doi.org/10.3390/jrfm14120602>.

populations and supporting ethical investment. However, realizing this potential requires supportive regulatory frameworks that uphold shariah principles without stifling technological innovation. Policymakers are increasingly aware of the urgency to balance fintech innovation with shariah compliance and consumer protection a balance that regulators must proactively manage to foster a healthy fintech ecosystem.<sup>7</sup> This makes the development of robust, adaptive legal frameworks a critical priority for Muslim-majority economies.

Despite this urgency, existing regulatory systems in both Indonesia and Malaysia have not fully kept pace with industry needs. In Indonesia, a dual-authority structure complicates oversight: the Financial Services Authority (OJK) regulates fintech operations, while shariah compliance is guided by fatwas from the National Shariah Council of the Ulama Council (DSN-MUI). Notably, DSN-MUI's fatwas lack binding legal force unless adopted into OJK regulations, creating ambiguity in enforcement. This regulatory dualism undermines legal certainty, as OJK cannot directly enforce shariah standards and coordination gaps persist in practice. Prior studies echo these concerns. For example, Muryanto et al. (2021) found that Indonesia's Islamic fintech sector has been hampered by inadequate and fragmented regulations, and they urged the establishment of a comprehensive Fintech Act to clarify authorities and strengthen shariah compliance. In Malaysia, by contrast, the regulatory framework is more mature yet not without issues.<sup>8</sup> Salim and Ilyas (2020) observed that, despite Malaysia's status as a global Islamic finance hub, its Islamic fintech landscape "does not meet expectations" due to challenges such as stringent regulations, limited funding, and talent shortages – factors that could stifle growth if left unaddressed.<sup>9</sup> A comparative study by Susilawati et al. (2021) highlighted that Indonesia still relies on general fintech regulations (OJK and central bank rules) which do not fully reflect shariah

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<sup>7</sup> "Leveraging Islamic Fintech to Improve Financial Inclusion," Text/HTML, World Bank, accessed July 26, 2025, <https://www.worldbank.org/en/country/malaysia/publication/leveraging-islamic-fintech-to-improve-financial-inclusion>.

<sup>8</sup> Yudho Taruno Muryanto et al., "Prospects and Challenges of Islamic Fintech in Indonesia: A Legal Viewpoint," *International Journal of Law and Management* 64, no. 2 (2021): 239–52, <https://doi.org/10.1108/IJLMA-07-2021-0162>.

<sup>9</sup> Kinan Salim and Abubakar Ilyas, "Challenges Facing Malaysia In Expanding Its Islamic Fintech Landscape & Possible Remedies," *International Journal of Islamic Economics* 2, No. 01 (2020): 01, <https://doi.org/10.32332/ijie.v2i01.2250>.

principles, whereas Malaysia benefits from a dedicated Islamic Financial Services Act 2013 and a National Shariah Advisory Council providing more structured oversight. Even so, that study noted neither country's framework has fully caught up with the rapid fintech innovations, as certain emerging shariah-fintech models remain outside clear regulatory scope.<sup>10</sup> Building upon my previous research, which identified the need for more responsive and adaptive regulations in Islamic fintech, this study further expands the discussion by highlighting the urgency for updated regulatory frameworks that can accommodate emerging shariah-compliant financial technologies and business models.<sup>11</sup> No prior work has explicitly evaluated these two frameworks using the theory of responsive law and the principle of legal certainty. This gap leaves unanswered how well each country's regulations adapt to technological change and provide predictability for fintech stakeholders, underscoring the necessity of the present study.

This research offers a novel contribution by examining Indonesia's and Malaysia's Islamic fintech regulatory frameworks with a rigorous comparative approach grounded in responsive law theory and an emphasis on legal certainty. The responsive law paradigm, as developed by Nonet and Selznick, holds that laws should dynamically adapt to societal and technological changes while promoting justice. Meanwhile, legal certainty is a cornerstone of rule of law, requiring clear and consistent regulations to instill confidence in market participants. By applying these theoretical lenses, the study evaluates how each country's framework balances innovation and compliance assessing, for instance, whether Malaysia's more centralized shariah governance yields greater clarity and adaptability than Indonesia's dual system, and how each aligns with industry needs. The comparative analysis yields fresh insights into the strengths and weaknesses of both approaches, going beyond previous single-country studies. Importantly, this paper doesn't stop at analysis: it provides concrete recommendations for harmonizing and improving Islamic fintech regulations in both jurisdictions.

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<sup>10</sup> Cucu Susilawati et al., "Comparative Study On The Regulation Of Sharia Financial Technology In Indonesia And Malaysia," *JURNAL HUKUM DAN PERADILAN* 12 (July 2021), <https://doi.org/10.18860/j.v12i1.12213>.

<sup>11</sup> Dwi Fidhayanti et al., "Exploring The Legal Landscape of Islamic Fintech in Indonesia: A Comprehensive Analysis of Policies and Regulations," *F1000Research*, ahead of print, 2024, <https://doi.org/10.12688/f1000research.143476.2>.

Drawing on best practices observed, it suggests ways to integrate shariah oversight with fintech policymaking for example, by formalizing the link between DSN-MUI fatwas and national law in Indonesia, or by introducing more flexible sandbox frameworks in Malaysia thereby enhancing both responsiveness and certainty. Through bridging the theoretical gap and furnishing practical guidance, this study aims to help regulators and policymakers in Muslim majority countries craft more coherent, innovative friendly legal frameworks. Ultimately, such frameworks will better support the growth of Islamic fintech in an inclusive, shariah-compliant manner, solidifying the role of Indonesia and Malaysia as global leaders in the Islamic digital economy.

## 2. Problem Statement

In Indonesia, regulatory fragmentation is evident in the dual authority of the Financial Services Authority (OJK) and the National Shariah Council–Indonesian Ulama Council (DSN-MUI). The OJK issues formal regulations, while the DSN-MUI issues non-binding fatwas on Shariah compliance. This bifurcated arrangement has led to ambiguity and legal uncertainty, as DSN-MUI’s fatwas are not legally binding or enforceable by law enforcement, leaving fintech operators to primarily follow OJK’s rules.<sup>12</sup> The lack of integration between these authorities has resulted in gaps in enforceability and oversight. Indeed, regulatory disharmony, such as overlapping or uncoordinated rules between agencies – hinders innovation and slows the broader adoption of Shariah-compliant fintech services.<sup>13</sup> This uncertainty in the legal landscape ultimately impedes the sector’s development and undermines stakeholder confidence in Islamic financial technology.

Malaysia, while widely recognized as a more mature Islamic finance hub, faces its own regulatory bottlenecks in scaling Islamic fintech. The country’s compliance procedures are often described as stringent and compliance-led, which, although ensuring robust

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<sup>12</sup> Didik Adji Sasongko and Nissar Ahmad Yattoo, “Implementation Of The Fatwá Of Indonesian Ulema Council On Sharī’ah-Compliant Financial Technology Service Products In Indonesia,” *Journal Of Integrated ScienceS* 2, No. 4 (2022): 4, <https://jis.iou.edu.gm/index.php/JIS/article/view/65>.

<sup>13</sup> Suaidi Suaidi et al., “Harmonisation Between DSN-MUI Fatwas and OJK Regulations: Towards an Innovative and Inclusive Sharia-Compliant Fintech Ecosystem in Indonesia,” *MAZAHIB* 24 (June 2025): 182–97, <https://doi.org/10.21093/mj.v24i1.10032>.

Shariah governance, can slow fintech innovation.<sup>14</sup> Industry analyses and surveys highlight talent shortages (particularly of experts versed in both Shariah and technology) and limited access to capital as key impediments to Islamic fintech startup growth. In practice, many Malaysian Islamic fintech firms struggle with recruiting qualified professionals to manage Shariah compliance and with securing funding for expansion.<sup>15</sup> These factors heavy regulatory compliance burdens, a lack of skilled talent, and funding constraints have collectively hindered the scalability and broader market penetration of Islamic fintech in Malaysia.

Prior comparative studies have acknowledged the above issues in Indonesia and Malaysia's fintech environments, but they remain largely descriptive in nature.<sup>16</sup> Few scholarly works have critically evaluated these regulatory regimes through a robust theoretical lens. In fact, recent literature reviews note that very few studies have explored the regulation and supervision of Islamic fintech in Indonesia and Malaysia. To date, no study has comprehensively assessed and compared the Islamic fintech regulatory frameworks of the two countries through the dual lenses of responsive law which advocates for laws that adapt dynamically to social and technological change and legal certainty, the principle that ensures trust and predictability in rapidly evolving digital financial ecosystems. This represents a significant research gap in the current discourse.

This study addresses the above gap by examining how the respective legal frameworks in Indonesia and Malaysia are responding to the rise of Islamic fintech, while still ensuring compliance with Shariah principles. Using a comparative legal methodology informed by the theories of responsive law and legal certainty, the research evaluates the strengths and weaknesses of each country's regulatory approach in detail. It not only analyzes current laws and guidelines for fintech and Shariah compliance, but also

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<sup>14</sup> Wanda Rich, "Islamic Fintech's Global Rise: Innovation, Ethics, and the Road Ahead," *Global Banking And Finance Review*, May 12, 2025, <https://www.globalbankingandfinance.com/islamic-fintech-s-global-rise-innovation-ethics-and-the-road-ahead>.

<sup>15</sup> "Facilitating SDGs with Islamic Finance (Part 3) Mobilizing Islamic Fintech in Malaysia | IFAC," accessed July 27, 2025, <https://www.ifac.org/knowledge-gateway/discussion/facilitating-sdgs-islamic-finance-part-3-mobilizing-islamic-fintech-malaysia>.

<sup>16</sup> Susilawati et al., "Comparative Study On The Regulation Of Sharia Financial Technology In Indonesia And Malaysia."

assesses their adaptability to technological innovation and their clarity in providing certainty to market participants. From this analysis, the study offers concrete policy recommendations for regulatory reform – for instance, suggesting ways to harmonize OJK regulations with DSN-MUI Shariah standards in Indonesia, or to streamline compliance processes and bolster support for fintech startups in Malaysia.

The need for such an inquiry is reinforced by preliminary findings (including the author's prior research) which underscored the urgency of developing more adaptive and integrative regulatory approaches to govern the evolving Islamic fintech landscape. By bridging the current theoretical and practical void, this study aims to contribute to the discourse on regulatory innovation in Muslim majority jurisdictions. It supports efforts to craft more inclusive, coherent, and future proof legal structures for Islamic digital finance, thereby ensuring that the growth of fintech is matched by responsive governance and sustained trust in the system.

### **3. Methods**

The research methodology employed in this study is normative juridical, focusing on analyzing the legal frameworks that govern the development of Islamic fintech in Indonesia and Malaysia. This method involves a statutory approach, which examines and analyzes legal provisions and regulations related to Islamic fintech issued by relevant authorities, such as the Financial Services Authority (OJK) in Indonesia and Bank Negara Malaysia (BNM) in Malaysia. Additionally, a comparative legal approach is utilized to compare the legal framework in both countries. This approach aims to identify similarities and differences in regulatory mechanism and their impacts on Islamic fintech development.

The study relies on primary legal materials, including statutory laws and regulations directly related to Islamic fintech, such as OJK Regulation No 77/POJK.01/2016 on Information Technology-Based Money Lending and Borrowing Services Act 2013 (Act 707) in Malaysia. These primary materials are complemented by secondary legal materials, which include books, journal articles, theses, and dissertations discussing Islamic fintech regulations and broader legal perspectives on financial technology in both jurisdictions.

Data collection is conducted through library research, gathering relevant legal documents, academic publications, and regulatory reports. The analysis of the collected legal materials employs a method of comparative interpretation, which involves interpreting the legal provisions within their respective regulatory contexts and comparing their implementation and implications. This comparative analysis is designed to uncover the strengths, weakness, and opportunities for improvement in the regulatory frameworks of both Indonesia and Malaysia, ultimately providing insights into their legal impact on Islamic fintech development.

#### 4. Concept and Evolution of Islamic Fintech

The concept of Islamic fintech emerged with the rise of fintech itself, which began to gain traction in the early 2000s. However, the prospect of Islamic fintech is relatively new and emerging,<sup>17</sup> as it aims to deliver goods and services that comply not only with shariah rulings but also with their spirits.<sup>18</sup> With the emergence of fintech, it has provided a missing impetus to the Islamic financial system to compete on equal ground with its conventional counterpart and prove its worth.<sup>19</sup>

Islamic fintech refers to financial technology that complies with Islamic financial regulations and principles.<sup>20</sup> Islamic fintech or fintech shariah is based on the principles of Islamic finance. Shariah-compliant fintech models are designed to provide financial services that comply with Islamic law.<sup>21</sup> Fintech and Islamic fintech share similar definitions, but the primary difference is that the latter has shariah requirements. Islamic fintech is a branch of financial technology that adheres to shariah principles, which forbids benefiting from debt, interest payments, and

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<sup>17</sup> Fatahullah et al., "Reform of Islamic Inheritance Law: The Influence of Customary Law on the Institution of Wasiat Wajibah in Islamic Law," *Jurnal IUS Kajian Hukum Dan Keadilan* 13, no. 1 (2025): 259–74, <https://doi.org/10.29303/ius.v13i1.1695>.

<sup>18</sup> Mohammad Sahabuddin et al., "Emergence of Islamic Finance in the Fourth Industrial Revolution and COVID-19 Post-Pandemic Era," in *Islamic Finance, FinTech, and the Road to Sustainability: Reframing the Approach in the Post-Pandemic Era*, ed. Zul Hakim Jumat et al., Palgrave CIBFR Studies in Islamic Finance (Springer International Publishing, 2023), [https://doi.org/10.1007/978-3-031-13302-2\\_6](https://doi.org/10.1007/978-3-031-13302-2_6).

<sup>19</sup> Rabbani et al., "Exploring the Role of Islamic Fintech in Combating the Aftershocks of COVID-19."

<sup>20</sup> "Islamic Fintech – The Global Digitization of The Islamic Economy," accessed March 3, 2023, <https://www.linkedin.com/pulse/islamic-fintech-global-digitization-economy-ebrahim-desai>.

<sup>21</sup> Nisar Ahmed et al., "Islamic Banking Perspective on Shariah Compliant FinTech (Financial Technology) Model," SSRN Scholarly Paper 3563030, Rochester, NY, January 26, 2019, <https://papers.ssrn.com/abstract=3563030>.

investing in businesses associated with alcohol, tobacco, and gambling.<sup>22</sup> The principles of Islamic finance are also used to analyse the performance of Islamic banks and fintech companies.<sup>23</sup> In Islamic fintech, shariah guidelines must be followed to the tee, specifically the branch of Islamic law that deals with transactions in the economy. This is then applied to the smart contract,<sup>24</sup> Regulatory standards and frameworks.<sup>25</sup>

Nevertheless, Islamic fintech also has a similarity with other kind of fintech (conventional fintech), their products includes services such as peer-to-peer lending, crowdfunding, money transfer, mobile payments, and trading platforms.<sup>26</sup> The main services of Islamic fintech is to promotes financial inclusion by providing affordable financial services to underserved and unbanked populations, which is in line with the ideal of bringing prosperity to individuals in Islamic finance.<sup>27</sup> The aim is to lift people from poverty to become self-sustaining where they are able to save and invest, and finally become the contributors of Zakat, Sadaqah, and other forms of Islamic social financing. Islamic fintech can also tap into the Islamic social financing market to support global Sustainable Development Goals (SDGs).<sup>28</sup> The potential of fintech in Islamic finance to promote financial inclusion has been studied, and the results reveal that fintech in Islamic finance has the potential to promote financial inclusion by providing affordable financial services.<sup>29</sup> In Indonesia, Islamic fintech has the potential to encourage financial inclusion.<sup>30</sup>

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<sup>22</sup> Nafisahon, "Islamic Fintech: What You Need to Know About It," *Musaffa Academy*, February 15, 2022, <https://academy.musaffa.com/islamic-fintech-what-you-need-to-know-about-it/>.

<sup>23</sup> Lucky Nugroho, *Prinsip-Prinsip Dasar Keuangan Syariah* (2023), 12.

<sup>24</sup> "(PDF) Fintech and Shariah Principles in Smart Contracts," accessed April 1, 2023, [https://www.researchgate.net/publication/330463014\\_Fintech\\_and\\_Shariah\\_Principles\\_in\\_Smart\\_Contracts](https://www.researchgate.net/publication/330463014_Fintech_and_Shariah_Principles_in_Smart_Contracts).

<sup>25</sup> Mohd Ma'Sum Billah, ed., *Islamic FinTech: Insights and Solutions* (Springer International Publishing, 2021), <https://doi.org/10.1007/978-3-030-45827-0>.

<sup>26</sup> "Islamic Fintech In Simple Terms | Ethis Blog," accessed March 3, 2023, <https://ethis.co/blog/understand-islamic-fintech-simple-terms/>.

<sup>27</sup> "Leveraging Islamic Fintech to Improve Financial Inclusion," accessed April 1, 2023, <https://islamicmarkets.com/publications/leveraging-islamic-fintech-to-improve-financial-inclusion>.

<sup>28</sup> Aishath Muneeza and Zakariya Mustapha, "Islamic FinTech and Financial Inclusion," *Springer Books*, Springer, 2021, 173–90.

<sup>29</sup> "Leveraging Islamic Fintech to Improve Financial Inclusion."

<sup>30</sup> Massinissa Ameziane and Othmane Touat, "The Role of Fintech in Islamic Finance in Accelerating Financial Inclusion," June 1, 2022.

Islamic fintech has made significant contributions to financial inclusion in Muslim countries. Sharia-compliant fintech are popping up in Islamic and non-Islamic nations alike, promising to win over millions of young Muslims and extend financial services to the underbanked.<sup>31</sup> Islamic fintech has provided access to financial services to people by offering digital financial solutions that are in line with the principles of their faith. This makes it easier for Muslims to access savings, investments, insurance, and mortgages that are sharia-compliant.<sup>32</sup> Islamic fintech is also being used to serve unbanked populations by offering digital financial services such as digital wallets and mobile banking, which makes it easier for them to access financial services.<sup>33</sup> The aim of Islamic fintech is to lift people from poverty to become self-sustaining where they are able to save and invest, and finally become the contributors of Zakat, Sadaqah, and other forms of Islamic social financing. Islamic fintech has facilitated the attainment of other goals in Islamic finance, including poverty reduction and social empowerment to promote global Sustainable Development Goals (SDGs). Islamic fintech has facilitated the provision of shariah-compliant financing and investment opportunities for Muslims in Muslim countries, which were previously unavailable.

Islamic fintech has contributed to the economic growth of Muslim countries by providing innovative financial solutions and promoting entrepreneurship. Islamic fintech has become the fastest-growing segment of financial technology among the Muslim population, and it has disrupted retail banking and consumer finance in advanced Western economies.<sup>34</sup> Islamic fintech focuses on utilizing technology to create shariah-compliant financial solutions, goods, services, and investments, which promote human welfare while incorporating ethics and justice into fintech solutions. Islamic fintech has the potential to promote financial inclusion by providing affordable

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<sup>31</sup> Ahmed et al., "Islamic Banking Perspective on Shariah Compliant FinTech (Financial Technology) Model."

<sup>32</sup> 'Islamic Fintech: Reaching the next Generation of Muslims', Economist Impact | Perspectives, accessed 1 April 2023, <https://impact.economist.com/perspectives/financial-services/islamic-fintech-reaching-next-generation-muslims>.

<sup>33</sup> Ameziane and Touat, "The Role of Fintech in Islamic Finance in Accelerating Financial Inclusion."

<sup>34</sup> "Fintech and the Growth of Islamic Finance," accessed April 1, 2023, <https://news.bloombergtax.com/tax-insights-and-commentary/fintech-and-the-growth-of-islamic-finance>.

financial services.<sup>35</sup> By providing innovative financial solutions and promoting entrepreneurship, Islamic fintech has contributed to the economic growth of Muslim countries.

## 5. Regulatory Framework and Opportunities for Islamic Fintech in Indonesia

Islamic fintech in Indonesia is regulated and supervised by the Indonesia Financial Services Authority (OJK). The Indonesia Financial Services Authority (OJK) has issued a regulation on Sharia Peer-to-Peer lending (P2P) platforms, which includes requirements for shariah compliance, risk management, and transparency. The Indonesia Financial Services Authority (OJK) has also issued a regulation on digital financial innovation, which includes provisions for Islamic fintech.<sup>36</sup> As for its distinctiveness as a financial institution that applies sharia economy, in Indonesia Islamic fintech in its operations is supervised by the Sharia Supervisory Board (Dewan Pengawas Syariah or DPS) whose task is to provide direction/supervision of products/services and business activities in accordance with Sharia principles. These two institutions have a role in supervising Islamic fintech in Indonesia so that it runs in accordance with regulations and in accordance with sharia principles. However, a comprehensive legal framework is needed to encourage and accelerate the growth of the Islamic economy in Indonesia.<sup>37</sup>

According to the Indonesia Financial Services Authority (OJK) in Indonesia, Islamic fintech refers to financial technology services and activities that are conducted in accordance with shariah principles and comply with the prevailing regulations on Islamic finance. Shariah compliance is a main characteristic of Islamic fintech in Indonesia, and these platforms must avoid interest-based transactions, which are common in the world of fintech. Islamic fintech in Indonesia finances the agricultural sector and small and micro-enterprises, contributing to social funds and improving

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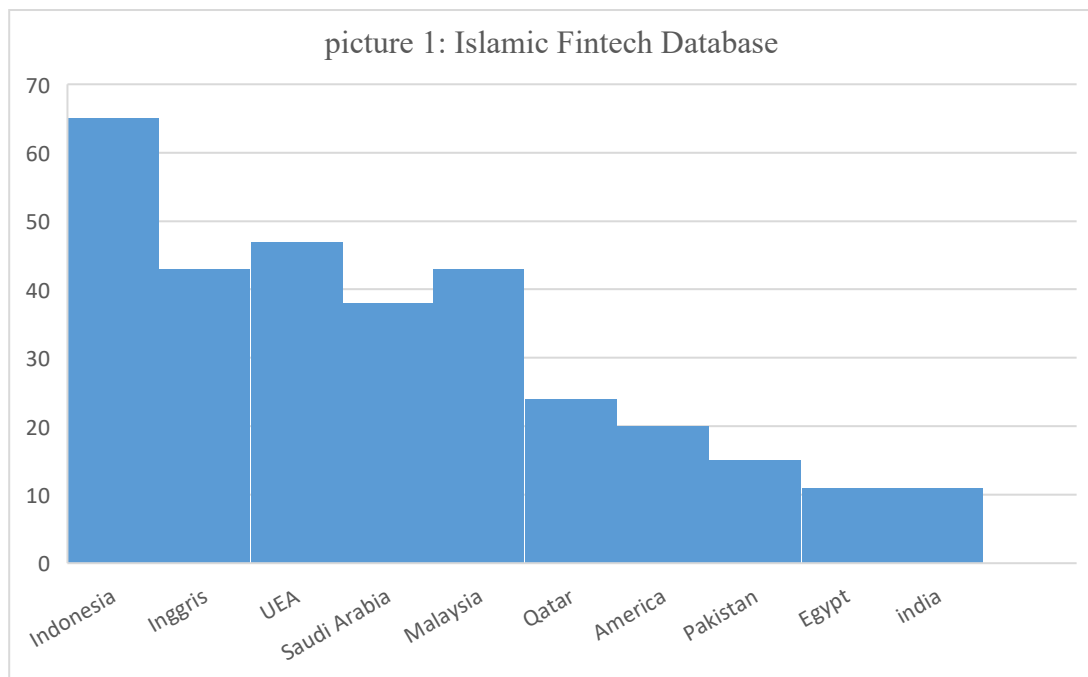
<sup>35</sup> "Islamic Fintech and Financial Inclusion: How It Is Expanding Access to Finance for Underserved Communities," accessed April 1, 2023, <https://www.linkedin.com/pulse/islamic-fintech-financial-inclusion-how-expanding-access->.

<sup>36</sup> Mahdiah Aulia et al., "An Overview of Indonesian Regulatory Framework on Islamic Financial Technology (Fintech)," *Jurnal Ekonomi & Keuangan Islam* 6, no. 1 (2020): 64–75, <https://doi.org/10.20885/jeki.vol6.iss1.art7>.

<sup>37</sup> Muryanto et al., "Prospects and Challenges of Islamic Fintech in Indonesia."

financial inclusion.<sup>38</sup>

However, Islamic fintech in Indonesia is still in its early stages of development and is less comprehensive than conventional platforms. The potential for Islamic fintech in Indonesia is vast, and with the right policies and regulations in place, Islamic fintech could play a significant role in inclusive economic development. It is proven that Indonesia is considered the fastest-growing fintech ecosystem in Southeast Asia since 2016 when the first fintech Peer-to-Peer (P2P) regulation was published by the Indonesia Financial Services Authority (OJK). They become an important role in fostering financial inclusion and decreasing the number of unbanked people in the country. The scale of sharia-fintech in Indonesia is small, with Islamic fintech startups disbursing about 1 trillion rupiah (\$73.15 million) in loans in 2019. The market size of Indonesia's Islamic fintech is still below Saudi Arabia, Iran, United Arab Emirates (UAE), and Malaysia.<sup>39</sup> However, Indonesia now has the highest number of recognized Islamic fintech globally, and the overall growth in the sector remains strong.



Source: *Global Islamic Fintech Report 2023/24*

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

There are several service providers and initiatives in the Islamic fintech industry in Indonesia. The following table are some notables based on data from the Indonesia Financial Services Authority (OJK) as of January 5, 2024:

**Table 1:** *Islamic fintech in Indonesia*

No	Islamic Fintech Company	Focus Product
1	Ammana.id	Peer to peer lending (P2PL) for SMEs.
2	ALAMI	Peer to peer lending (P2PL) for SMEs.
3	Dana Syariah	Peer to peer lending (P2PL) for building and housing development projects.
4	Duha Syariah	Peer to peer lending (P2P Lending) for expenditure of goods or services with maturity.
5	Qazwa.id	Peer to peer lending (P2P Lending) for SMEs.
6	Papitupi Syariah	Peer to peer lending (P2P Lending) for consumer financing.
7	Ethis	Peer to peer lending (P2P Lending) for building and housing development projects.

*Sources: processed data by the author from the company website*

It is the latest data presented by the Indonesia Financial Services Authority (OJK), the number of Islamic fintech players in Indonesia licensed by the Indonesia Financial Services Authority (OJK) is constantly growing based on the company's compliance with the terms and conditions of the Indonesia Financial Services Authority (OJK) regulations. At first in the early 2020s, the number of Islamic fintech sharia numbered 13. then the number continued to decline to 11 Islamic fintech companies that still survived in 2021. Meanwhile, in 2022 the number of Islamic fintech was only 8 companies. The 7 Islamic fintech companies listed in the table are companies that remain registered and licensed by OJK. This means that these companies comply with the Indonesia Financial Services Authority (OJK) regulations and also strictly implement sharia compliance. Article 47 of the Indonesia Financial Services Authority (OJK) Regulation No.77/POJK.01/2016 on Information Technology-Based Money Lending and Borrowing Services confirms that for violations of obligations and prohibitions in this the Indonesia Financial Services Authority (OJK) regulation, the Indonesia Financial Services Authority (OJK) is authorized to impose administrative sanctions on the Organizer in the form of: written warnings; fines, namely the

obligation to pay a certain amount of money;<sup>40</sup> restrictions on business activities; and license revocation. Therefore, complying with sharia regulations and principles is crucial for the growth and development of Islamic fintech in Indonesia.<sup>41</sup>

One fundamental issue that caused the slow growth of Islamic fintech in Indonesia compare to Malaysia is the duality of roles between the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) and the Financial Services Authority (OJK). DSN-MUI is part of the Indonesian Ulema Council (MUI), an independent civil society organization not structurally affiliated with the government. DSN-MUI's primary task is to issue fatwas related to sharia principles for the financial and economic sector. The legal basis for DSN-MUI is derived from MUI Decision No. Kep-754/MUI/II/1999, which stipulates that DSN MUI fatwas serve as guidelines for sharia financial institutions.<sup>42</sup> However, these fatwas do not have binding legal force unless adopted into regulations by the government or OJK.<sup>43</sup>

On the other hand, OJK, established under Law No. 21 of 2021 concerning the Financial Services Authority to regulate and supervise the financial sector but does not include oversight of sharia compliance. In practice, sharia compliance supervision is delegated to the Sharia Supervisory Board (DPS or in Indonesia called Dewan Pengawas Syariah) within individual institutions, without direct verification by OJK regarding the implementation of DSN-MUI fatwas.<sup>44</sup> This creates a duality of role where DSN-MUI acts solely as a fatwa issuer without enforcement authority, while OJK lacks the technical capacity to evaluate sharia compliance directly, focusing instead on governance aspects. This duality results in a regulatory gap, reflecting the lack of integration in

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<sup>40</sup> Emad Mohammad Al Amareen and Mustafa M. Al-Husban, "A Critical Overview of Islamic Performance Bonds," *Legality: Jurnal Ilmiah Hukum* 32, no. 1 (2024): 51–70, <https://doi.org/10.22219/ljih.v32i1.29964>.

<sup>41</sup> "Is Islamic Fintech Catching On in Indonesia? | Fintech Singapore," accessed February 22, 2023, <https://fintechnews.sg/68684/financial-inclusion/islamic-fintech-indonesia/>.

<sup>42</sup> Fitriyani Zein, "Legislation Fatwa National Sharia Board-Indonesian Council of Ulama (DSN-MUI) In the State Economic Policy," *Jurnal Cita Hukum* 6, no. 1 (2018): 1, <https://doi.org/10.15408/jch.v6i1.8267>.

<sup>43</sup> "Dinamika Fatwa Dari Klasik Ke Kontemporer (Tinjauan Karakteristik Fatwa Ekonomi Syariah Dewan Syariah Nasional Indonesia (DSN-MUI) | Wahid | YUDISIA : Jurnal Pemikiran Hukum Dan Hukum Islam," accessed January 24, 2025, <https://journal.iainkudus.ac.id/index.php/Yudisia/article/view/5831>.

<sup>44</sup> Nur Sillaturohmah Handayani et al., "The Strategic Role of DSN-MUI in Developing Islamic Economic Law," *AL-IKTISAB: Journal of Islamic Economic Law* 7, no. 1 (2023): 1, <https://doi.org/10.21111/aliktisab.v7i1.9297>.

Indonesia's sharia regulatory framework, which requires improved coordination to ensure a robust and responsive oversight system for the sharia financial industry.

Responsive law theory, developed by Nonet and Selznick, emphasizes that laws must adapt to change, respond to the real needs of society and industry players, and promote justice.<sup>45</sup> In the concept of Islamic fintech, several gaps between principle and practice are evident. First, the principle between principle of responsive of law requires that legal frameworks adapt to societal needs. However, Indonesia's sharia fintech regulations are not sufficiently responsive, as the sharia principles issued by DSN-MUI often do not align with their implementation under OJK's supervision, leaving market demands for alignment between sharia and positive law unmet. Second, the absence of regulatory harmonization among institutions creates discord in the regulation and supervision of sharia fintech. The existing regulatory framework fails to serve as an effective mediator between the sharia authority (DSN-MUI) and the positive law authority (OJK). Third, the lack of protection and legal certainty due to unclear role delineation between DSN-MUI and OJK deprives industry players and consumers of optimal legal protection, especially in cases of sharia principle violations.

A strong regulatory framework is essential for fostering the growth of Islamic fintech in Indonesia. Harmonizing the roles of DSN-MUI and OJK is to improving sharia compliance and closing the existing gaps supervision. For instance, fatwas of Islamic fintech can provide law enforcement if sharia principles are not adhered to by service providers under the auspices of the OJK with the supervision by the sharia supervisory board of the DSN-MUI. By aligning their responsibilities and working together more closely, Islamic fintech can better adhere to sharia principles while meeting regulatory standards. Additionally, creating policies that are responsive to technological advancements and the needs of the market will help enhance financial inclusion and drive the growth of Indonesia's Islamic economy. As one of the fastest-growing fintech ecosystems in the world, Indonesia has immersed potential to strengthen its Islamic fintech sector and become a global leader in inclusive and sustainable economic

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<sup>45</sup> Andrew Pilliar, "Vulnerability Theory and Access to Justice: Elaborating Possibilities for Legal System Design," in *Law, Vulnerability, and the Responsive State* (Routledge, 2023).

development.

## 6. Regulatory Framework and Opportunities for Islamic Fintech in Malaysia

The Islamic fintech sector in Malaysia is a burgeoning industry that has seen remarkable growth over recent years.<sup>46</sup> As of 2023, there are 17 Islamic fintech companies operating within the country, reflecting a robust expansion in this niche market. The market size was valued at approximately 11.1 billion USD in 2022/23, with projections indicating it could surpass 23 billion USD by 2027.<sup>47</sup> This growth trajectory is supported by strategic government initiatives aimed at fostering innovation and development in Islamic finance. For instance, the Malaysian government, under Prime Minister Anwar, Ibrahim, pledged 100 million Malaysian ringgit in 2024 to support the advancement of Islamic fintech, underscoring the sector's importance to the national economy.<sup>48</sup> This rapid growth is further reinforced by the country's demographic advantages and cultural alignment with Islamic principles.

The dominance of Islamic fintech in Malaysia is largely attributed to the country's demographic composition, where a significant portion of the population adheres to Islamic principles. This has created a substantial demand for Sharia-complaint financial services, which include digital payments, savings, investments, and lending. These services are designed to comply with Islamic law, which prohibits interest (riba) and emphasizes ethical investing and risk-sharing.<sup>49</sup> Companies in this sector have capitalized on this demand by offering innovative financial products

That not only meet religious requirements but also leverage cutting-edge technology to enhance user experience and accessibility. Such innovation has not only catered to

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<sup>46</sup> 'A Comparative Analysis of Fintech and Islamic Banking Development in Malaysia and Indonesia: Implications for Indonesian Workers in Malaysia - Penelusuran Google', accessed 24 January 2025, 8.

<sup>47</sup> "Malaysia: Market Size of Islamic Fintech 2027 | Statista," accessed January 24, 2025, <https://www.statista.com/statistics/1332975/malaysia-market-size-of-islamic-fintech/>.

<sup>48</sup> Fintech News Malaysia, "PM Anwar Pledges RM100 Million to Boost Islamic Finance Innovation," *Fintech News Malaysia*, May 28, 2024, <https://fintechnews.my/44388/islamic-fintech/pm-anwar-pledges-rm100-million-to-boost-islamic-finance-innovation/>.

<sup>49</sup> Saifullah Saifullah et al., "The Evaluation of the Indonesian Fintech Law from the Perspective of Regulatory Technology Paradigms to Mitigate Illegal Fintech," *Jurisdictie: Jurnal Hukum Dan Syariah* 14, no. 2 (2024): 233–64, <https://doi.org/10.18860/j.v14i2.24025>; Aditya Prastian Supriyadi, "An Islamic Spirit for Business Ethics and Legal Framework of Fintech Peer to Peer Lending: Why Does Indonesia Need It?," *JURISDICTIONE* 13, no. 2 (2023): 294–321, <https://doi.org/10.18860/j.v13i2.17876>.

the domestic market but also significantly impacted the broader economic landscape by promoting inclusivity and accessibility.

On the essential impacts of Islamic fintech on Malaysia's economy is its role in promoting financial inclusion. By the providing Sharia-complaint financial products, Islamic fintech companies are able to reach segments of the population that might otherwise remain unbanked or underbanked due to the religious considerations. This inclusivity is crucial for economic development, as it allows more individuals and businesses to participate in the financial system, thereby driving economic activity and growth. Moreover, the integration of technology in Islamic finance has led to increased efficiency and reduced costs, making financial services more accessible and affordable for consumers.<sup>50</sup> In addition to driving inclusivity, Islamic fintech also to be the main pivotal role in advancing Malaysia's position in the digital economy.

The growth of Islamic fintech also contributes significantly to Malaysia's digital economy. By merging traditional Islamic finance principles with modern technology, these fintech companies are the forefront of financial innovation.<sup>51</sup> This not only enhances the competitiveness of Malaysia's financial sector on a global scale but also attracts foreign investment and talent, further boosting economic growth. The sector's expansion is supported by a favourable regulatory environment that encourages innovation while ensuring compliance with Islamic financial principles. This regulatory framework, characterized by comprehensive guidelines and initiatives, serves as the backbone of the sector's credibility and sustained growth.

The main initiatives include the Islamic Financial Services Act 2013 (Act 707), which ensures Sharia compliance for financial products and establishes a comparative legal framework for Islamic financial institutions, promoting transparency and consumer protection.<sup>52</sup> The act outlines requirements for Sharia compliance and the roles of

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<sup>50</sup> "Islamic Finance in the Era of Financial Technology: A Bibliometric Review of Future Trends," accessed January 24, 2025, <https://www.mdpi.com/2227-7072/11/2/76>.

<sup>51</sup> Veronica Sebastian, "Financial Technology and Sustainability Strategies: In the Perspective of Banking Industry in Malaysia" (doctoral, University of Wales Trinity Saint David, 2023), <https://repository.uwtsd.ac.uk/id/eprint/2696/>.

<sup>52</sup> Mohd Zawawi Salleh and Mohd Johan Lee, "Thirty-Five Years of the Malaysian Judiciary Adjudicating Islamic Finance Matters," *Singapore Academy of Law Journal*, Singapore Academy of Law Singapore, January 1, 2020, Singapore, <https://search.informit.org/doi/abs/10.3316/informit.838589836417206>.

Sharia Advisory Councils. While regulatory sandbox allows fintech companies to test innovations in controlled environment. The Sharia Advisory Councils provides essential guidance on compliance, and the SC develops guidelines for Islamic crowdfunding and peer-to-peer financing, additionally, government initiatives like the Malaysia Digital Economy Corporation promote digital adoption, encouraging collaboration between traditional bank and fintech firms. This comprehensive regulatory support enhances the credibility and innovation of Islamic fintech, positioning it for continued growth in Malaysia's financial landscape. The regulatory framework in Malaysia had a vital role in fostering the growth of Islamic fintech sector, coupled with Malaysia's strategic position as a leader in Islamic finance, primary overseen by Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC). This cohesive regulatory framework, supported by institutional oversight from Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC), positions Malaysia as a leader in the global Islamic fintech landscape.

Looking ahead, the future of Islamic fintech in Malaysia appears promising. The sector is poised for continued growth, driven by increasing consumer demand for Sharia-complaint financial products and supportive government policies. As the industry evolves, it is likely to see further innovations in product offerings and service delivery, enhancing its contribution to Malaysia's economic development. The ongoing digital transformation in the financial sector, coupled with Malaysia's strategic position as a leader in Islamic finance, positions the country well to capitalize on the opportunities presented by the growing Islamic fintech market. With a strong foundation already in place, Malaysia is expected to continue its trajectory as a dominant service provider in the Islamic finance ecosystem globally.

The following table summarizes some of the leading Islamic fintech companies in Malaysia and their main products and services:

**Table 2:** *Islamic fintech in Malaysia*

<b>Company Name</b>	<b>Products/ Services</b>	<b>Description</b>
Boost	Digital wallet, Payment Solutions, Islamic Financing	A digital wallet that offers payment solutions and Sharia-complaint financing options for users.
Kiva	Crowdfunding Platform	Provides a platform for micro-lending, allowing users to lend money to entrepreneurs in a Sharia-complaint manner.

Fundaztic	Peer-to-peer Lending	A P2P lending platform that connects investors with small businesses seeking sharia-complaint financing.
Ethis	Crowdfunding, Real Estate, Investment	Offers Sharia-complaint crowdfunding for real estate and social impact projects.
Al Rajhi Bank	Digital Banking, Islamic Financing, Investment Products	Provides a range of digital banking services and Sharia-complaint investment products.
Amanah Ikhtiar Malaysia (AIM)	Microfinance, Islamic Financing	Focuses on providing microfinance solutions to low-income individuals and small businesses in a Sharia-compliant manner.
MyFinB	Financial Analytics, Islamic Investment Solutions	Offers financial analytics and investment solutions tailored to Islamic finance principles.
HelloGold	Gold	Allows users to buy, sell, and store gold in a Sharia-complaint manner, integrating gold investment with fintech.
PayHalal	Payment Gateway, E-commerce Solutions	A payment gateway that facilitates online transactions for e-commerce businesses while ensuring compliance with Islamic principles.
Naiise	E-commerce Platform, Islamic Products	An online marketplace that features a range of Sharia-compliant products, including fashion and lifestyle items.

Source: author's data proceed

#### Notes:

- a. Sharia Compliance: All listed companies provide products and services that adhere to Islamic finance principles, which prohibit interest (riba) and promote ethical investing.
- b. Market dynamics: The Islamic fintech landscape in Malaysia is rapidly evolving, with new entrants and innovations emerging regularly.

The table above highlights several prominent Islamic fintech companies in Malaysia, each offering a range of Sharia-compliant financial products and services, such as crowdfunding for real estate and SMEs, digital investment portfolios aligned with Islamic principles, online gold transactions, Takaful (Islamic Insurance), and digital Islamic platforms, and banking solutions. These firms leverage technology to enhance accessibility, transparency, and ethical practices for consumers who prioritize Sharia-complaint transactions.<sup>53</sup> Features like a focus on social impact, user-friendly platforms, and risk-sharing structures distinguish them in the dynamic Malaysian fintech landscape. Supported by robust regulatory framework, including the Islamic

<sup>53</sup> Kefi Miftachul Ulum et al., "Integration of Islamic Philanthropy with Financial Technology: The Case Study of Waqf Towards Sustainable Funding in Indonesia," *Jurisdictie: Jurnal Hukum Dan Syariah* 16, no. 1 (2025): 77-123, <https://doi.org/10.18860/j.v16i1.30447>.

Financial Services Act (IFSA) 2013 and oversight by Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SC), these providers operated within a clear legal structure that ensures compliance with Sharia principles, reinforcing Malaysia's reputation as a global leader in Islamic finance.

The Salaam Gateways Report 2022/ 2023 ranked Malaysia as the number one country in the Islamic finance ecosystem, including fintech. This ranking reflects the effectiveness of Malaysia's regulations, which not only support the growth of the Islamic economy but also ensure compliance with the principles of Islamic law. Based on Salam Gateways Report 2022/ 2023 Malaysia also success closely linked to the Shariah Governance Framework (SGF), which ensures Sharia compliance across all Islamic financial institutions, including fintech. This framework provides clear guidelines for industry service providers in designing and implementing Sharia-compliant financial products. Furthermore, regulations such as the Capital Markets and Services Act (CSMA) 2007 and the Guideline on Digital Assets (2020) ensure that activities such as peer-to-peer lending, crowdfunding, and Sharia-compliant digital assets operate within a clear and structured legal framework.

To drive growth in Islamic finance, Malaysia also offers economic incentives such as tax exemptions for sukuk issuance and tax reductions for Sharia-based technology companies. These incentives create an attractive investment climate strengthen the Islamic fintech ecosystem in the country. This regulatory support, coupled with international collaborations with organizations such as the Islamic Financial Services Board (IFSB), further enhances Malaysia's credibility as a global hub for Islamic fintech.

## **7. The Comparison of Islamic Fintech Legal Framework Between Indonesia and Malaysia**

Both Indonesia and Malaysia have established dedicated regulatory authorities overseeing fintech operations. In Indonesia, the Financial Services Authority (OJK) regulates all fintech, including Islamic fintech, while in Malaysia, the role is carried out by Bank Negara Malaysia (BNM) and the Securities Commission (SC), supported by the

Shariah Advisory Council (SAC).<sup>54</sup> Both countries are committed to promoting the ethical growth of Shariah-based fintech, emphasizing the importance of fintech platforms adhering to Shariah principles. For instance, Indonesia has prioritized the development of Islamic fintech as a national agenda, while Malaysia continues to foster halal digital financial innovations in line with its vision as a global Islamic finance hub. Both countries also prioritize Shariah governance, ensuring that fintech services comply with Shariah principles, including the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling). However, the enforcement mechanisms differ between the two countries. In Indonesia, the role of Shariah governance is largely advisory, with the National Shariah Council (DSN-MUI) issuing fatwas that are not legally binding unless incorporated into formal regulations by the OJK or Bank Indonesia, which creates legal uncertainty.<sup>55</sup> In contrast, Malaysia formally integrates Shariah principles into its legal framework through the Shariah Advisory Council (SAC), making their decisions binding and legally recognized by the courts, thus ensuring clearer guidance for market players.

Regarding the integration of Shariah law into the regulatory framework, Malaysia's regulations are more formalized, incorporating Shariah principles within its financial laws. Under the Central Bank of Malaysia Act 2009, the decisions of the SAC are considered final and binding in Islamic finance matters, meaning Shariah rulings automatically become part of the regulation to be followed by financial institutions. In contrast, Indonesia operates under a dual system, where the fatwas of DSN-MUI serve as ethical guidelines but are not binding law unless explicitly adopted into regulations by the OJK or Bank Indonesia. This discrepancy creates a gap in legal certainty; in Malaysia, Shariah compliance is embedded in the national legal framework, while in Indonesia, it remains voluntary unless codified into law.

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<sup>54</sup> Nuarrual Hilal Md Dahlan et al., "Shariah Advisory Council (SAC) in the Malaysian Islamic Financial Institutions: Features and Legal Issues," *Advances in Global Business Research* 11 (January 2014): 9–21, <https://doi.org/10.1504/JGBA.2016.076718>.

<sup>55</sup> Sepriyadi Adhan S et al., "Legal Reformulation of Banking Consumer Protection: Building a Justice-Oriented Regulatory System," *LITIGASI* 26, no. 1 (2025): 546–64, <https://doi.org/10.23969/litigasi.v26i1.19270>; Sriono et al., "Legal Protection for Digital Bank Customers in Indonesia: Analysis of Data Confidentiality Regulations and Bank Responsibility," *LITIGASI* 25, no. 2 (2024): 301–30, <https://doi.org/10.23969/litigasi.v25i2.18538>.

The scope of regulation in both countries also differs. Malaysia has issued more specific regulations and guidelines for Islamic financial services, covering both traditional and digital Shariah-compliant financial services. This clear framework helps Islamic fintech operators to function within specific Shariah guidelines and industry standards. In contrast, Indonesia's fintech regulations are more general, applying to all fintech players without specific distinctions for Shariah models. For example, OJK Regulation No. 77/POJK.01/2016 on Technology-Based Lending Services (fintech P2P lending) applies to all platforms, so Islamic fintech operators must adapt to the same rules as conventional fintech, which does not specifically address Shariah-compliant mechanisms like profit-sharing schemes or Shariah contracts. As a result, operators must refer to DSN-MUI fatwas for additional guidance, leading to potential confusion and legal uncertainty for Shariah-compliant fintech providers.

Malaysia has seen more structured and advanced development in Islamic fintech compared to Indonesia. The clear regulatory framework and high legal certainty have encouraged the emergence of numerous licensed Islamic fintech companies, positioning Malaysia as a leading global hub for Islamic finance. Malaysia's policies have successfully nurtured a vibrant Islamic fintech ecosystem by balancing innovation with Shariah compliance. On the other hand, Indonesia, despite its large market potential, faces regulatory and infrastructural challenges. The complexity of licensing processes and dual oversight between OJK and Bank Indonesia, as well as the need for internal Shariah supervisory boards, has slowed the growth of Islamic fintech in Indonesia. While the number of Islamic fintech companies is increasing, the lack of clear and detailed legal foundations has made industry players cautious, contrasting with Malaysia, where clear regulations foster greater confidence for aggressive expansion.

In general, responsive regulatory frameworks that provide legal certainty tend to foster the growth of Islamic fintech industries. In Indonesia, regulatory complexity and dual jurisdiction have hindered development. Despite having the largest Muslim population in the world and the highest number of Islamic fintech startups globally, the growth of the industry has not kept pace with its potential. Research has shown that regulatory complexity and legal uncertainty have slowed the development of Islamic

fintech in Indonesia. When industry players are unsure about the rules (for example, whether a product must comply with a particular fatwa), innovation is stifled, and investors are more cautious. In contrast, Malaysia's high legal certainty and clear regulatory support have created a conducive environment for innovation. Regulations that specifically address the needs of Islamic fintech have instilled confidence in business operators to experiment within the permissible regulatory boundaries. As a result, Malaysia has emerged as a global hub for Islamic fintech, with rapid growth in fintech startups. The well-established legal and regulatory infrastructure, including the role of the SAC and clear Shariah compliance frameworks, is recognized as a key factor in Malaysia's success in balancing financial innovation with religious compliance. This demonstrates that proactive and clear regulatory approaches can align with Shariah goals while fostering the growth of Islamic digital economies.<sup>56</sup>

The concept of responsive law emphasizes that regulations should be adaptable and responsive to societal needs and technological developments.<sup>57</sup> Malaysia's approach can be seen as an example of responsive law, where regulators proactively adjust the legal framework to accommodate the emerging phenomenon of Islamic fintech without deviating from Shariah objectives.<sup>58</sup> Regulations serve as tools to achieve social goals, such as financial inclusion and ethical compliance with Islamic teachings, rather than rigid rules that ignore context. This is evident in Malaysia's successful implementation of a framework with a dedicated Shariah council and clear compliance guidelines, allowing digital financial innovations to grow in line with Shariah principles. A key element of responsive law is legal certainty. Clear, consistent, and enforced regulations build trust among industry players and the public. Malaysia, by institutionalizing Shariah fatwas as positive law, provides high legal certainty, with Islamic fintech operators knowing their limits and obligations regarding product innovation. In

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<sup>56</sup> Lukman Santoso et al., "Halal Tourism Regulations in Indonesia: Trends and Dynamics in the Digital Era," *Ijtihad: Jurnal Wacana Hukum Islam Dan Kemanusiaan* 22, no. 1 (2022): 73-94, <https://doi.org/10.18326/ijtihad.v22i1.73-94>.

<sup>57</sup> Philippe Nonet et al., *Law and Society in Transition: Toward Responsive Law* (Routledge, 2017), <https://doi.org/10.4324/9780203787540>.

<sup>58</sup> Siti Nor Amira Mohamad et al., "Navigating the Moral Compass of Halal FinTech in Islamic Finance: Harvesting Benefits While Curbing Risks," in *Emerging Technology and Crisis Management in The Halal Industry: Issues and Recent Developments*, ed. Nor Aida Abdul Rahman and Mohd Helmi Ali (Springer Nature, 2024), [https://doi.org/10.1007/978-981-97-1375-2\\_10](https://doi.org/10.1007/978-981-97-1375-2_10).

contrast, Indonesia's lack of integration of DSN-MUI fatwas into formal regulations creates gaps in legal certainty. This uncertainty hampers regulators' ability to quickly respond to technological changes, as each new innovation requires separate interpretation between positive law and fatwas. This situation highlights the need for increased responsiveness in Indonesian law, such as accelerating the adoption of Shariah guidelines into OJK/Banco regulations, so that the law can more swiftly support innovation while maintaining compliance with principles. Experts advocate for the evolution of Indonesia's regulatory framework to be more flexible yet firm in applying Shariah principles, thus creating a healthy and competitive fintech ecosystem without compromising Islamic values. By prioritizing legal certainty within a responsive framework, the law can catalyze the sustainable growth of the Islamic fintech industry.

Islamic fintech is expanding rapidly in Indonesia and Malaysia, both of which have emerged as global leaders in the sector.<sup>59</sup> These countries have successfully integrated Islamic principles into their financial systems, creating fertile ground for the growth of Shariah-compliant financial technologies. However, both face considerable challenges in developing comprehensive and adaptive regulatory frameworks that can keep pace with the rapid evolution of fintech. This section discusses the key regulatory challenges shared by the two nations and offers policy recommendations for strengthening the governance of Islamic fintech in both jurisdictions.

One of the foremost challenges is the issue of legal certainty. In Indonesia, the absence of clear and binding regulations specific to Islamic fintech contributes to a climate of regulatory ambiguity. Shariah compliance is often guided by fatwas issued by the National Sharia Council (DSN-MUI), but these fatwas do not have the force of law unless formally adopted by state regulators such as the Financial Services Authority (OJK) or Bank Indonesia.<sup>60</sup> Consequently, non-compliance with Shariah principles may carry no legal sanctions, which undermines regulatory predictability. In contrast, Malaysia has

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<sup>59</sup> Yudho Taruno Muryanto, "The Urgency of Sharia Compliance Regulations for Islamic Fintechs: A Comparative Study of Indonesia, Malaysia and the United Kingdom," *Journal of Financial Crime* ahead-of-print, no. ahead-of-print (2022), <https://doi.org/10.1108/JFC-05-2022-0099>.

<sup>60</sup> Darmadi Duriyanto et al., "The Challenges of Sharia Fintech Regulation in Indonesia: A Global Comparative Analysis," *Jurnal Hukum* 41, no. 1 (2025): 1, <https://doi.org/10.26532/jh.41.1.19-30>.

embedded Shariah compliance into its formal legal framework through institutions like the Shariah Advisory Council under Bank Negara Malaysia, ensuring that Shariah rulings are binding and enforceable. This structured approach provides greater clarity and confidence for Islamic fintech operators.

A second major issue is regulatory lag. Both countries struggle to update their legal frameworks as quickly as fintech innovation evolves. The introduction of new financial technologies often outpaces regulatory responses, creating gaps in oversight and increasing compliance risks. While Malaysia has implemented initiatives such as regulatory sandboxes and Indonesia has issued various OJK circulars to encourage innovation within safe boundaries, the pace of regulatory adaptation remains insufficient. If regulations are too slow, innovation can be stifled; if they are too relaxed, consumer safety and Shariah compliance may be compromised. Responsive law regulatory frameworks that evolve with societal and technological changes must strike a careful balance between flexibility and enforceability.<sup>61</sup>

Consumer protection also poses a critical challenge. The rapid growth of Islamic fintech raises significant concerns about user awareness, data protection, and ethical standards. In Indonesia, the lack of public understanding regarding Islamic fintech alternatives and the presence of unauthorized or non-compliant platforms have exacerbated these issues. Regulators in both countries must address risks such as data misuse, fraud, and Shariah violations. While both Indonesia and Malaysia are developing rules on data privacy and disclosure, existing gaps leave consumers vulnerable. For instance, unclear consent mechanisms for data sharing in Malaysia have deterred some users. Therefore, strengthening transparency, standardizing disclosure requirements, and enhancing dispute resolution mechanisms are essential to protect users. Building consumer trust in Islamic fintech requires comprehensive safeguards and public education on financial literacy and Shariah-compliant financial practices.

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<sup>61</sup> Nurhaiyyu Abdull Hamid et al., *Fintech in Malaysia: Navigating Challenges and Shaping a Digital Future*, n.d.

To improve the regulatory environment for Islamic fintech, several strategic actions are recommended. First, both countries should pursue regulatory harmonization across ASEAN. A unified framework for Islamic fintech would reduce legal fragmentation, support cross-border fintech operations, and foster regional financial integration. Aligning Shariah standards and licensing requirements would also ease expansion for regional players and ensure consistent consumer protections. Second, Indonesia should adopt a more integrated Shariah governance model, akin to Malaysia's. This would involve granting legal authority to Shariah advisory bodies and codifying fatwas into enforceable regulations through OJK or legislative action. Institutionalizing Shariah compliance would enhance regulatory certainty and bring Indonesia in line with international best practices.

Third, public trust and transparency must be reinforced. Regulators in both Indonesia and Malaysia should prioritize robust disclosure obligations, effective risk management protocols, and mechanisms that ensure Islamic fintech platforms uphold high ethical standards. Greater transparency regarding how companies operate and manage user funds, along with regular audits and Shariah compliance reports, will help mitigate reputational and operational risks. Financial literacy campaigns targeting Muslim consumers are also crucial for enabling informed participation in the Islamic fintech ecosystem. Ultimately, building a secure and trustworthy environment where consumers are educated, protected, and confident in the Shariah integrity of services will drive the long-term sustainability of the sector. These recommendations for Indonesia and Malaysia can further develop their Islamic fintech ecosystems in a way that is not only innovative and inclusive but also anchored in Shariah principles. A harmonized, clearly regulated, and consumer-focused framework will support growth while safeguarding the ethical foundation of Islamic finance. Through collaboration among regulators, industry players, and Shariah scholars, both nations can establish resilient regulatory ecosystems that foster sustainable and socially responsible digital financial services.

## **8. Conclusion**

This study underscores that the development of Islamic fintech in Indonesia and Malaysia is significantly shaped by the respective regulatory frameworks in each

country. Malaysia demonstrates superiority through a more structured legal framework, stronger legal certainty, and a well-integrated approach between Shariah principles and positive law, which collectively foster innovation while ensuring Shariah compliance. Conversely, Indonesia continues to face challenges arising from regulatory fragmentation, dual authority between OJK and DSN-MUI, and weak legal certainty, all of which undermine industry confidence and hinder the growth of Islamic fintech. These findings highlight the imperative of regulatory harmonization and the enhancement of legal certainty to establish an inclusive, innovative, and sustainable Islamic fintech ecosystem in both jurisdictions.

Future research should focus on conducting empirical investigations into the effectiveness of integrating Shariah principles into Indonesia's positive law and its impact on investor confidence and financial inclusion. Comparative studies on consumer protection mechanisms, the effectiveness of regulatory sandboxes, and the adoption of emerging technologies such as blockchain and artificial intelligence for Shariah compliance monitoring are also recommended. Furthermore, interdisciplinary research combining legal, technological, and economic perspectives is crucial to formulate a responsive and adaptive regulatory model that aligns with global Islamic fintech developments. Such research would strengthen Indonesia and Malaysia's positions as leading hubs in the global Islamic fintech ecosystem.

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