

Sharia Fintech Towards Halal Financial Inclusion of Indonesian Industry

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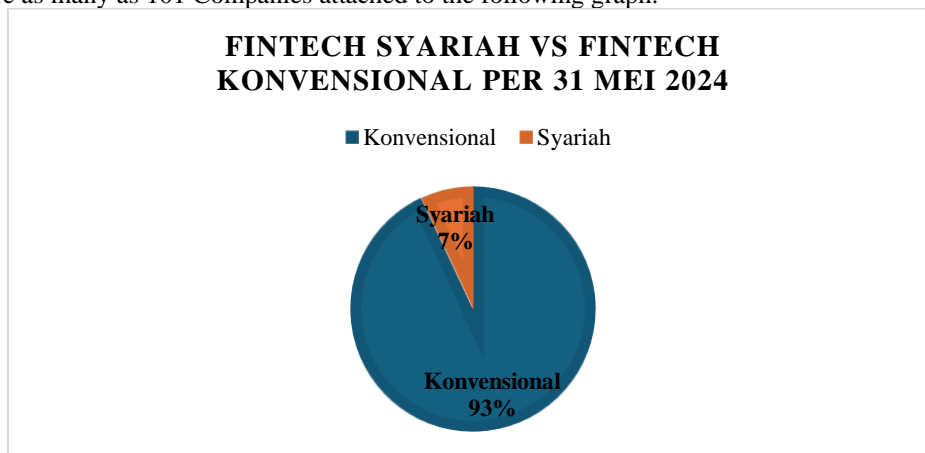
Abstract. The technological developments that have occurred have given birth to various opportunities and challenges as well as roles in the financial sector. The purpose of this study is to explore the understanding of industrial halal financial inclusion in the context of Financial Technology (Fintech). This study uses a qualitative method with a literature study approach for sharia in Indonesia. This study is designed using a literature study approach where data is sourced from relevant literature such as journal articles and industry reports. The potential and challenges that exist, the government is expected to encourage business actors and business actors are expected to be more concerned about halal guarantees. The results of the study show that sharia fintech increases the value of foreign exchange reserves such as the halal industry, especially in halal food and Muslim clothing, thereby creating a friendly environment for the sharia finance industry to help MSMEs.

Keywords: Financial Technology, Halal Industry, Financial Inclusion

1 Introduction

Rapid technological developments have entered the financial sector, slowly transforming the old financial system into an all-digital system. Digital technology itself is a breakthrough and a new innovation in all fields, one of which is finance called *Financial Technology* (Fintech). According to Fitri Pertiwi & Solehudin (2023) Fintech emerged and developed against the background of the problem of difficult access to banking services so that many people do not have bank accounts (*unbanked people*). Today's financial technology presents easy access to transactions with responsive innovations, *Safety*, and prioritizing customer protection (Amrullah & Hasan, 2021). Fintech is increasingly developing marked by the presence of *Start-up* that compete to provide effective and efficient financial application services, as well as friendly services in a short time (Hasyim & Hasibuan, 2022).

The development of fintech can help the government in accelerating financial inclusion evenly to all regions and all circles, both Muslim and non-Muslim. Existence *Fintech* It aims to make it easier for the public to access financial products, facilitate transactions and increase financial literacy. Therefore, collaboration *Fintech* with Islamic financial institutions is urgently needed. This can be a driver for economic development, especially the halal industry. In Indonesia, fintech has experienced very rapid growth, where based on data obtained from IKNB (2024) stated that as of May 31, 2024, the total number of organizers *Fintech* licensed with the Financial Services Authority are as many as 101 Companies attached to the following graph.



(Source: Licensed Fintech Lending Operators as of May 31, 2024, Financial Services Authority)

Fig. 1. Fintech Syariah vs Fintech Konvensional Per 31 Mei 2024

In addition, according to the OJK report regarding the distribution of loans to fintech users from the productive sector as of January 2024, a total of 6,487 billion rupiah (Financial Services Authority, 2024). Services that promote responsible finance with positive growth potential over time are evidenced by Islamic fintech in Indonesia ranked fifth with a market value of IDR 41.7 trillion according to the Global Fintech Islamic Report 2021 (Hidayat & Sururi, 2023).

Indonesia as a country where the majority of the people are Muslims, has prepared a halal industry master plan that includes halal food and beverages, halal tourism, *Fashion* halal, and others (Sukoso et al., 2020). This implies that Indonesia supports halal products by issuing regulations to encourage the halal industrial market. Based on a survey KNEKS et al. (2023) In the study of the 2019 National Strategy for the Development of the Halal Industry, halal is important for producers to produce products so that the industry needs to pay attention to the production process such as procurement of materials, storing and distributing products. According to Hidayat & Sururi (2023), in 2021 fintech growth in ASEAN slowed down, but sharia fintech in Indonesia still showed positive developments. Based on the report *State of the Global Islamic Report* At the end of 2023, Indonesia's halal industry experienced an increase of one rank from the previous year, namely in third position in halal economic development.

The growth of sharia fintech and the potential of the halal industry, which shows a great opportunity supported by the largest Muslim population, can boost Indonesia's economy. However, this development is also faced with challenges such as low public literacy about fintech, both conventional and sharia. This research wants to reveal the role and opportunities of sharia fintech for the growth of the halal industry in Indonesia in order to improve the national economy.

2 Literature Review

2.1 Fintech

Fintech or *Financial Technology* It is the result of a combination of financial services and technology that ultimately changes the business model to be more efficient (Communication, 2018). According to Fitri Pertiwi & Solehudin (2023) Fintech is financial access that can help and need people in the form of a combined result of finance and technology. Broadly speaking, fintech is an umbrella term for innovative financial services that are supported by technology and the business models that accompany the service so that it can be used for business-related innovations to improve the process, delivery, and use of service finance (Mention, 2019).

Policies related to regulations regarding fintech are in accordance with the function of financial services to the community. Regulations and arrangements regarding OJK supervision of fintech in the form of Information Technology-based (P2P) money lending services (*Lending*) regulated in POJK Number 77/POJK.01/2016 (Fachrurrazy & Siliwadi, 2020). There are several types of fintech services according to categories, namely, (Persada, 2022):

- a. *Payment, clearing, and settlement* engaged in payments and clearing carried out by technology, finance, or Bank Indonesia. This fintech is widely used by various groups such as the Ovo application, GoPay, ShopeePay, and others.
- b. *E-aggregator* is a fintech to compare financial products such as Unsecured Loans (KTA) such as CekAja.com that can compare various financial products.
- c. Risk management and investment, this type of fintech provides services for users who want to invest such as Bibit, Stockbit, and others.
- d. Fintech lending or *Peer to peer (P2P) Lending*, a type of service for financial technology companies that collect funds from the public to be lent to the community and the main target is MSME actors. Fintech lending is divided into two, namely conventional and sharia. Conventional fintech lending such as Investree and Amarth. Meanwhile, sharia fintech lending such as Alami Shariah, LinkAja Syariah, BSalam, and others.

2.2 Sharia Fintech

Since the existence of financial services based on sharia principles, fintech seeks to improve financial services based on sharia principles, starting from the growth of banks and other financial institutions based on sharia principles to encourage efforts to regulate Islamic law related to the development of financial services *fintech*. Fatwa No.117/DSN-MUI/II/2018 concerning Information Technology-Based Financing Services based on Sharia Pinsip is a legal product in accordance with Islamic law (Hidayat & Sururi, 2023).

Islamic law has an important role in the field of muamalah including fintech. In the view of sharia economics, fiqh muamalah which is essentially a transaction, namely a contract that occurs between one party and another. Fintech can be valid and allowed according to sharia if there is no *illat-illat* prohibitions such as *usury* speculative (*Maisir*), fraud (*Gharar*), and cheating (*ghabn*), and detrimental (*dllarar*). Six types of services *Fintech* that has been identified by (Kusuma & Asmoro, 2021) that is:

- Asset Management is a platform that helps businesses run more proactively and efficiently.
- Crowd Funding* is a *start-up* that provides a fundraising platform to be distributed to those in need such as the *KitaBisa* platform
- E-Money* or electronic money that can be used to shop, pay bills, and more through the application. In Indonesia, payment for toll entrance, train tickets and tourist attractions has been replaced electronically through *Jak Card Bank DKI*, *Tap Cash BNI*, *Flash BCA*, and others.
- Insurance* is a type of *start-up* that provides services to users in the form of information about the health system such as hospital and doctor information.
- Peer to peer (P2P) Lending* is an online *money lending service* that is considered by the OJK for MSME actors who do not have a bank account like *Kredivo*.
- E-Wallet* is almost the same as *e-money*, the difference can be seen from the physical. If *e-money* uses a card, then *e-wallets* use server-based technology and are usually used for shopping, buying credit, and paying bills.

2.3 Halal Industry

Indonesia officially supports halal assurance marked by the issuance of Law No. 33 of 2014 concerning Halal Product Assurance (JPH) and Government Regulation No. 31 of 2019 concerning Halal Product Assurance (Sukoso et al., 2020). To develop the halal industry, there are several main strategies, including increasing productivity and competitiveness, implementing and strengthening regulatory policies and policies, strengthening halal *Brand* and *Awariness*, and strengthening finance and infrastructure (KNEKS et al., 2023).

The halal industry is a field that can include various activities ranging from the procurement of raw materials, processing, to finished products, which are carried out with resources and methods in accordance with Islamic law (Kasnelly, 2022). Meanwhile, according to Sukoso et al. (2020) The definition of the halal industry in terms of language consists of two words, namely industry and halal. According to the Great Dictionary of the Indonesian Language, "Industry" refers to the processing or processing of an item using facilities and equipment. Similarly, "halal" which has the meaning of being allowed or not prohibited in Islamic law.

Table 1. Halal Industry Sector

It	Halal Industry Sector	Realized & Predicted Value (USD, billions)			Indonesia's Position	Value (USD, billions)
		2018	2024	Up (%)		
1	Halal Food	1,37	1,97	6,3	1	173
2	Islamic Finance	2,52	3,47	5,5	7	86
3	Travel Halal	189	274	6,4	5	11
4	Fashion Halal	283	402	6,0	3	21
5	Media and Recreation	220	309	5,8	6	10
6	Halal Pharmacy	92	134	6,5	4	5
7	Halal Cosmetics	64	95	6,8	2	4

Source: Sukoso et al. (2020)

In the table, it is explained that the halal industry sector can be grouped into 7 different sectors, according to their functions and uses. The impact that has the greatest influence among the seven sectors is the procurement of Islamic-based financial sectors such as Islamic banks, followed by the halal food industry, both large industries and MSMEs (Sukoso et al., 2020).

3 Methods

This study uses a qualitative method with a literature study approach to explore the understanding of industrial halal financial inclusion in the context of sharia *Financial Technology* (Fintech) in Indonesia. This study is designed using a literature study approach where data is sourced from relevant literature such as journal articles and industry reports.

4 Results and Discussion

4.1 Fintech Development in Indonesia

Fintech began to be present in Indonesia in 2007 by providing a variety of innovative digital financial service products, these services cover various sectors such as payments, loans, financial planning, financial research and others (Purwanto et al., 2022). In Indonesia, the Financial Services Authority (OJK) realizes the importance of implementing *Fintech* used as one of the solutions to overcome financial service problems, with the existence of *Fintech* It is hoped that financial services can be more easily accessed by the public with more *Flexible* and transparent (Nuryakin et al., 2019).

Financial technology (fintech) plays an important role in Indonesia's economy by providing wider and inclusive financial access to the public, especially those that have not been reached by traditional banking services. With the adoption of digital technology, fintech has helped reduce transaction costs and speed up the process of payments, loans, and investments (Ismawati et al., 2022). This not only facilitates the growth of Micro, Small, and Medium Enterprises (MSMEs), but also encourages financial inclusion, which in turn improves the economic well-being of the community. In addition, fintech also encourages innovation in the financial sector and creates new job opportunities, which contributes positively to Indonesia's overall economic growth (Fathoni, 2020).

4.2 Development of Sharia Fintech in Indonesia

Fintech sharia itself was first legalized in Indonesia in 2016 by the Financial Services Authority (OJK) along with accompanying regulations in monitoring and regulating the pace of development *Fintech* sharia (Hiyanti et al., 2019). *Fintech* Sharia in Indonesia has succeeded through rapid progress in recent years in line with the increasing public awareness of the importance of financial principles in direct proportion to the emergence of *Fintech Platforms* which has a sharia regulatory basis (Hiyanti et al., 2019). Sharia fintech, more specifically sharia economic law, provides the view that fiqh law regarding fintech is categorized as *Fathu al-Dzari'ah* which means breakthrough opportunities to make new innovations (Fachrurrazy & Siliwadi, 2020).

Fintech provides benefits for the people and it can be understood that fintech is able to provide benefits to changes in fintech innovation and is considered able to increase consumer comfort so that sharia goals are achieved (Amrullah & Hasan, 2021). Financial services sector players related to modern technology are related to fintech, in other words, their work activities use technological sophistication so as to simplify the flow of financial transactions, which originally had to be face-to-face changed to only network-based (Fachrurrazy & Siliwadi, 2020). The reference that is the source that *Financial Technology* is not contrary to the sharia economy, namely the Qur'an where there is one verse that means "... *Even though Allah has legalized buying and selling and forbids usury*" (Q.S. Al-Baqarah (2): 25) which emphasizes that business transaction activities are halal and the use of technology is one of the forms of muamalah that develops along with the progress of the times (Kusuma & Asmoro, 2021).

4.3 The Potential of Sharia Fintech for the Halal Industry in Increasing Financial Inclusion

Fintech Sharia has a great influence on the halal industry in terms of increasing financial inclusion in Indonesia. Principles used in *Fintech* Sharia is in accordance with Islamic laws where *Fintech* Sharia can offer its financial products and services so that they can be accessed by people who were previously reluctant to use conventional financial services because there are special reasons such as incompatibility with one of the factors, namely religiosity. The services in question are in the form of financing, investment and payments in accordance with sharia contracts, so that the Muslim community, which is the majority in Indonesia, can receive *Fintech* Sharia properly and on target. (Yudhira, 2021)

The halal industry continues to get positive growth results every year, the impact of this growth also has a good influence on the economy in Indonesia, this can be seen through the Gross Domestic Product which provides profits of around USD163.09 billion as of June 2023 (Fathoni, 2020). The halal industry has a lot of potential to increase the value of foreign exchange reserves, the first thing that can be done is to increase the value of halal industry exports, especially in terms of halal food and Muslim clothing, increase the potential of halal tourism and create a more friendly environment for the Islamic finance industry in order to help Micro, Small and Medium Enterprises access capital (Utari et al., 2022).

Fintech sharia supports Small and Medium Enterprises (SMEs) both those engaged in the conventional sector and those specifically for the halal sector (Hidayat & Sururi, 2023). There are many cases where SMEs have difficulty accessing financing from conventional banks and the weight of interest charged to SMEs, here is *Fintech* Sharia is a substitute role by entrepreneurs so that it can help them to develop and increase competitiveness (Utari et al., 2022). Sharia fintech also encourages innovation in the halal industry, by offering more flexible and affordable financial solutions. Overall, Islamic fintech is helping to create a more inclusive and sustainable financial ecosystem, which supports the growth of the halal industry and improves people's economic well-being (Kasnelly, 2022).

4.4 Opportunities and the Role of Sharia Fintech on Indonesia's Halal Industry

The increasingly advanced industrial revolution supports economic and financial activities because it provides benefits and conveniences but has negative impacts such as the emergence of consumptive nature and hedonistic lifestyles. Apart from the negative impact caused, fintech that is in accordance with the rules of fiqh, namely avoiding transactions containing elements prohibited by religion, prioritizing honesty, and increasing knowledge and socialization for fiqh muamalah (Ismawati et al., 2022). The existence of technology can encourage an increase in the promotion of the halal industry in Indonesia and make halal industry products more effective (Fathoni, 2020).

The development of halal assurance is the background for producers to produce halal products and require halal certification obtained through the government of the Halal Product Assurance Agency (BPJPH) (Sukoso et al., 2020). Producers can take part in halal certification training and fintech management both internally and externally so that the needs of MSME actors related to capital can be met with management in Islamic financial businesses and services that continue to increase (Ismawati et al., 2022).

5 Conclusions and Suggestions

Indonesia welcomes the existence of fintech, both conventional and sharia, because fintech is considered capable of being used as an option to make it easier for the community. Along with the country, Indonesia has the potential to develop the halal industry with the number of citizens who are mostly Muslims. The existence of this potential can boost the economy through the halal industry with various challenges such as low public literacy regarding fintech and the halal industry.

There are potentials and challenges, the government is expected to encourage business actors and business actors are expected to be more concerned about halal guarantees for their products. With education and assistance from the government to the community, it is hoped that sharia fintech will be increasingly in demand by many circles. The government can take steps such as collaborating with institutions and institutions that support the sharia-based digital financial ecosystem so that the growth and development of sharia fintech attracts and protects the interests of consumers for sustainable growth.

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