
The Influence of Fintech on The Efficiency and Stability of The Sharia Financial System

Cory Vidiati¹, Andieni Cucu Putra¹

^{1&2}Ekonomi dan Bisnis Islam, Universitas Islam Bunga Bangsa Cirebon

Email: coryvidiati@bungabangsacirebon.ac.id¹, andiencuput@gmail.com²

Abstract

The influence of Financial Technology (Fintech) on the efficiency and stability of the Islamic financial system has become the center of attention in modern financial literature. This research uses a literature study method to investigate the impact of Fintech in the context of Islamic finance. The main findings show that Fintech adoption has positively contributed to operational efficiency, reduced administrative costs, and increased accessibility of Islamic financial services. However, the regulatory challenges faced in balancing technological innovation and Sharia principles are a major highlight. In addition, the literature describes risks related to technological changes that can affect the stability of the Islamic financial system. This research provides recommendations for increasing cooperation between Islamic financial institutions and Fintech start-ups, developing responsive regulations, and expanding empirical research to test the impact of Fintech directly. In conclusion, this research provides in-depth insights into the evolution of Islamic finance in the Fintech era, providing a basis for better understanding and developing relevant policies.

Keywords: Financial Technology, Sharia Finance, Operational Efficiency, Financial System Stability, Financial Regulation, Technological Innovation

Introduction

In the last decade, Financial Technology (Fintech) has become a key driver of the transformation of the global financial system, introducing innovations that change how we interact with financial services. In a more specific context, Fintech is also significantly impacting the Islamic financial system, creating new opportunities and challenging the principles underlying Islamic economics. This research aims to investigate in depth the influence of Fintech on efficiency and stability within the framework of the developing Islamic financial system (Evi, 2023)

The Islamic financial system, which is rooted in the principles of Islamic sharia, stipulates a prohibition against *riba* (usury) and business activities deemed unethical. In recent years, Fintech has penetrated this sector by providing financial solutions that comply with Sharia principles, such as financing without usury, investment in accordance with Islamic law, and payment services that comply with Islamic business ethics (Bilqies et al., 2023). Applying Fintech in the Sharia financial system opens the door to innovations that can increase operational efficiency and provide financial access to more people. Technologies such as artificial intelligence, data analysis, and blockchain technology simplify business processes and increase transaction speed. This is expected to make a significant contribution to the efficiency of the Islamic financial system as a whole (Fattah et al., 2023)

Efficiency is a key element in the success of the financial system, including the Islamic financial system. Fintech brings significant changes in efficiency, especially through improvements in time and costs. For example, automating processes using artificial intelligence technology can reduce the time required for credit assessment and loan approval processes. This not only provides benefits for sharia financial service providers but also increases accessibility for people who previously had difficulty getting access to financial services (Yusuf, 2015). Blockchain technology can also increase efficiency in transactions and risk management. This decentralized and encrypted system allows for greater transparency and reduces the

risk of fraud. With the adoption of Fintech, the Islamic financial system can achieve a higher level of efficiency, increasing its competitiveness in the global market (Musana, 2023)

Despite the potential for huge profits, adopting Fintech in the Islamic financial system does not come without challenges. One of the main challenges is data security and privacy. With financial transactions becoming increasingly digitally connected, the risk of data leaks and cyberattacks increases. Therefore, there is a need for strict regulations and a strong security infrastructure to protect customer data security and system integrity. In addition, legal and regulatory uncertainty relating to Fintech in the context of sharia is also a serious challenge. Developing a clear and consistent legal framework is key to ensuring that Fintech innovations comply with Sharia principles and support the growth of the Sharia financial sector as a whole. Although Fintech can increase efficiency, rapid technological changes can pose stability risks in the Islamic financial system. The speed of adoption of new technologies and the complexity of innovation can create new challenges that may require adjustments in regulation and oversight.

Aspects of market uncertainty and volatility also need to be considered. Fintech can create an environment where rapid changes can occur, affecting asset prices and market balance. Therefore, this research will explore how Fintech affects efficiency and the extent of its impact on the stability of the Islamic financial system. This research aims to investigate the impact of Fintech on the efficiency and stability of the Islamic financial system by involving an in-depth analysis of the influence of financial technology innovation on various aspects of the Islamic financial ecosystem. By understanding the role of Fintech in increasing efficiency and the potential risks that may arise, this research is expected to provide valuable insights for practitioners, regulators, and researchers in managing Fintech developments in Islamic finance.

Through an interdisciplinary approach, this research will combine economic, legal, and technological analysis to form a holistic view of the impact of Fintech in the context of Islamic finance. It is hoped that the research results will provide a basis for developing appropriate policies, regulatory guidelines, and best practices in exploiting the potential of Fintech to increase the efficiency and stability of the Islamic financial system. This research can also be a valuable contribution to the academic literature relating to the role of financial technology in the rapidly developing Islamic financial system.

Library Review

1. Fintech in the context of sharia

Rapid growth in the Financial Technology (Fintech) sector has changed the financial services paradigm globally. This is no exception in Islamic finance, where Fintech opens up new opportunities and challenges traditional paradigms. Islamic finance, a financial system based on Islamic Sharia principles, is experiencing a significant transformation by adopting Fintech. At a basic level, Fintech in Islamic finance focuses on developing financial solutions that comply with Islamic law, including usury-free financing, investments based on Sharia principles, and payment services that meet Islamic business ethics.

Previous research shows that Fintech has played an important role in expanding financial access in countries with majority Muslim populations. Technology-based financing, such as Islamic peer-to-peer lending and Islamic investment platforms, has provided access to segments of society that were previously limited in accessing conventional financial services. With Fintech, people can obtain financial solutions that comply with Sharia principles more easily and quickly (Basuki, 2018).

2. Operational Efficiency through Fintech in Sharia Finance

Operational efficiency is one of the most visible aspects of Fintech's influence in Islamic finance. Applying artificial intelligence technology and data analysis in operational processes can reduce the costs and time required to provide financial services. For example, natural language processing technology is used in chatbots to improve customer service. At the same time, data analysis allows service providers to make faster and more accurate decisions in credit risk assessment.

The application of Fintech in Sharia financial operations also includes using blockchain technology to increase transparency and security in transactions. This technology can facilitate audit processes and real-time asset tracking, reducing the risk of fraud and human error. Therefore, operational efficiency obtained through Fintech can significantly contribute to the development of the Islamic financial sector (Muchlis, 2018).

3. Regulatory Challenges in Fintech Adoption in Sharia Finance

Despite its positive potential, adopting Fintech in Islamic finance faces several challenges, especially in regulation. Islamic finance has a unique legal and ethical framework, and greater efforts are needed to ensure that Fintech innovations comply with Islamic sharia principles. These challenges include establishing clear and consistent regulations, addressing legal differences across jurisdictions, and resolving legal issues that may arise as Fintech develops (Fattah et al., 2023).

4. The Impact of Fintech on the Stability of the Sharia Financial System

In exploring the impact of Fintech on the stability of the Islamic financial system, it is necessary to consider that rapid technological changes can create new risks. While Fintech can increase efficiency, the complexity and speed of innovation can also create challenges that need to be overcome to maintain system stability. Research has shown that rapid technological changes can create market volatility, change risk dynamics, and require more careful regulation and oversight (Lestari et al., 2021). In Islamic finance, where stability is critical to maintaining public trust and the integrity of Sharia principles, there must be a careful balance between Fintech adoption to increase efficiency and adequate risk management to maintain system stability. Therefore, this research will closely examine the impact of Fintech on the stability of the Islamic financial system, identify potential risks, and formulate views that can assist in developing policies and best practices.

5. Research Conceptual Framework

From this literature review, it can be concluded that the influence of Fintech in Islamic finance is very complex, involving various aspects, including operational efficiency, regulatory challenges, and impact on system stability. The conceptual framework of this research will integrate the findings from this literature review to build a holistic understanding of how Fintech interacts with the Islamic financial system. By involving technological, legal, and economic dimensions, this research will provide in-depth insight into the impact of Fintech on the efficiency and stability of the Islamic financial system and create a basis for developing policies and best practices in the future.

Research Method

In the context of this research, literature studies allow researchers to develop a solid and comprehensive theoretical basis, explore key concepts, and understand the legal, economic, and technological framework surrounding the role of Fintech in Islamic finance. First of all, through a literature study approach, researchers can investigate the impact of Fintech on operational efficiency in the Islamic financial system. Various literature reviews can provide in-depth insights into how artificial intelligence technology, data analysis, and blockchain technology have been applied to simplify operational processes, increase transaction speed, and reduce administrative costs.

Then, the literature study method supports the identification of regulatory challenges faced by Fintech development in the context of Islamic finance. Analysis of legal literature can reveal existing regulatory frameworks and seek an understanding of differences and gaps that may need to be addressed in accommodating Fintech innovation in accordance with Sharia principles. Furthermore, the literature study allows researchers to explore how Fintech influences the stability of the Islamic financial system. By collecting findings from various literatures, this research can develop a critical analysis of the rapid changes in technology and potential risks that may arise, which can affect overall stability in the context of Islamic finance.

The literature study method also supports the identification of research gaps that still exist in this field. By detailing existing literature, this research can indicate where further research areas can be undertaken, allowing researchers to make a more significant contribution to our understanding of the impact of Fintech on the Islamic financial system. Overall, through the literature study method, this research will form a strong and in-depth foundation for understanding and analyzing the impact of Fintech on the efficiency and stability of the Islamic financial system. By detailing previous findings, researchers can build strong arguments to support the contribution of this research in the context of scientific literature related to the development of financial technology in the realm of Islamic finance.

Result And Discussion

The influence of Financial Technology (Fintech) on the efficiency and stability of the Islamic financial system has become the focus of attention in scientific literature. Through the literature study method, this research explores related concepts and findings to develop a solid understanding of the role of Fintech in

transforming the Sharia-based financial system. One aspect that dominates the literature is the operational efficiency of adopting Fintech in Islamic finance. Artificial intelligence technology and data analysis are proven to speed up the credit assessment, loan approval, and risk management processes. Along with this development, it can be seen that Fintech has succeeded in reducing administrative costs, increasing transaction speed, and providing greater accessibility to Islamic financial services (Raharjo, 2021).

However, in celebrating these efficiency gains, the literature also highlights a number of challenges, particularly in the regulatory context. Legal frameworks that are not yet fully mature in some jurisdictions can be an obstacle to the development of Fintech in Islamic finance. This regulatory gap needs to be addressed so that innovation can continue to develop in accordance with Islamic sharia principles. In this context, the literature suggests the need for responsive, consistent, and adaptive regulations to accommodate Fintech dynamics without compromising Islamic financial principles (Kusuma, 2023). In line with operational efficiency, this research also explores the impact of Fintech on the stability of the Islamic financial system. Although Fintech can increase efficiency, the complexity and speed of innovation can create new risks that affect overall stability. Literature analysis highlights that rapid changes in technology, market volatility, and cyber risks are major challenges that may require adjustments in regulation and supervision to maintain the stability of the Islamic financial system (Herdinata, 2019).

In addressing these challenges, the literature offers a number of recommendations. There is a view that close collaboration between Islamic financial institutions and Fintech start-ups could be a positive step to minimize gaps and utilize each other's expertise. Apart from that, the recommendations also emphasize the need for responsive and adaptive regulations to create an environment that supports Fintech growth without violating Sharia principles (Yudha et al., 2020).

Meanwhile, to investigate Fintech's impact on the efficiency and stability of the Islamic financial system further, this research identifies several research gaps that can serve as directions for further research. For example, there is a need to go deeper into the legal and regulatory aspects that may limit the growth of Fintech in Islamic finance. Additionally, the literature suggests that further empirical research may be needed to confirm the literature findings and test the impact of Fintech directly in the context of Islamic finance (Supangkat, 2020).

By detailing existing literature, this research significantly contributes to our understanding of the impact of Fintech on the Islamic financial system. Through critical analysis of literature findings, this research forms a strong foundation for understanding and analyzing the impact of Fintech on the efficiency and stability of the Islamic financial system. The conclusion of this discussion summarizes the main findings and points the reader toward future research. In the context of Islamic finance, it is important to comprehensively evaluate the positive impacts and risks of Fintech adoption and identify strategies to exploit the potential of this technology while maintaining system stability. Thus, this research provides in-depth and comprehensive insight into the role of Fintech in changing the Islamic finance landscape, highlighting the challenges and opportunities for the future.

Conclusion

In conclusion, through a literature study approach, this journal discusses the influence of Financial Technology (Fintech) on the efficiency and stability of the Islamic financial system. The literature analysis presents a comprehensive picture of how Fintech has shaped significant changes in Islamic finance, bringing varying impacts on the sector.

First, the literature study reveals that Fintech positively contributes to operational efficiency in Islamic finance. The application of artificial intelligence technology and data analysis has succeeded in increasing transaction speed, reducing administrative costs, and expanding the accessibility of Islamic financial services to the public. This efficiency not only provides benefits for sharia financial service providers but also increases financial inclusion among previously difficult communities to reach.

Second, the literature highlights the regulatory challenges faced by Fintech developments in the context of Islamic finance. Regulatory differences between jurisdictions and gaps in legal frameworks are major obstacles that require further attention. Therefore, this journal emphasizes the importance of developing responsive, consistent regulations and in accordance with Sharia principles to support the growth of Fintech.

Third, the literature analysis highlights that while Fintech can improve efficiency, the risks associated with rapid technological changes can also affect the stability of the Islamic financial system. Market

volatility, cyber risks, and challenges related to changes in the Islamic financial ecosystem are important to focus on in discussions of the impact of Fintech. Therefore, there is a need for careful regulation and supervision to maintain the overall stability of the Islamic financial system.

In conclusion, through the literature study method, this research has provided an in-depth understanding of how Fintech has shaped and changed the Islamic financial landscape. Recommendations and implications from literature findings guide practitioners, regulators, and researchers in managing Fintech developments in the context of Islamic finance. As such, this journal makes an important contribution to the scientific literature and provides a platform for further research and development in this field.

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