

Article

Islamic Finance in the Digital Age: Fintech as a Civilizational Tool

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Abstract

This study explores the potential synergy between Islamic finance and financial technology (fintech). This synergy may prove to be a strong civilizational tool to help in the propagation of the Islamic finance principles as long as it is done right. Such values are used to enhance social justice, fair allocation of wealth, and moral economic involvement in contrast to profit maximization, which is the ultimate aim of traditional finance. With the advent of fintech, new technologies like blockchain, artificial intelligence, and mobile platforms emerged. These innovations do provide a chance to bring the ideas of Islamic finance to a large scale. It is on the basis of the significant scholarly and business reports that this paper will comment on how fintech can contribute to better Shari'ah-compliant products, financial inclusion, and better, transparent, and more resilient economic systems. This paper identifies the opportunity in innovation and the challenges that exist in the Islamic finance industry. The main challenges are regulatory barriers, ethics, the absence of standardization/harmonization, and skilled workers. By the concerted effort of all stakeholders, we would be in a position to develop a collaborative ecosystem that would harness technology for the betterment of humankind. Finally, digitalized finance through fintech may contribute to sustainable civilizational development if designed, governed, and implemented according to maqasid al-Shari'ah principles and integrated within appropriate regulatory frameworks.

Keywords: Islamic finance; fintech; civilizational tool; financial inclusion; Shari'ah-compliance; digital currencies; blockchain

1. Introduction

Islamic finance proponents argue that Islamic finance is not just another way to manage money. This is the entire system for an economy based on Islamic laws. The gist is to have an economy that is just, ethical, and profitable to all people. Some of the most significant characteristics of this system are risk-sharing (*musharakah*—joint venture and *mudharabah*—passive partnership), not giving interest (*riba*), and refraining from excessive speculation (*gharar*) and gambling (*maysir*). Islamic finance operates according to Shari'ah principles emphasizing risk-sharing, asset-backing, and ethical investment, with objectives including social welfare (*maslahah*), equitable wealth distribution, and adherence to prohibitions on *riba*, *gharar*, and *maysir*. While conventional finance frameworks typically prioritize efficiency and shareholder value maximization, Islamic finance scholarship emphasizes normative objectives including justice (*'adl*), social equity (*qisṭ*), and alignment of financial activity with broader civilizational goals (Askari et al. 2010, 2012; Mirakhor and Smolo 2011, 2014).



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Development can be witnessed mainly in the banking sector, but even this is dominated only by a handful of countries. It has become imperative for formulating innovative and efficient approaches for building and managing wealth with regard to Islamic banking systems. In particular, it can be noted that it has become necessary to formulate improved regulations for the present state of sukuk markets because these markets experience trading problems difficult to comprehend. On top of that, although Takaful receives increasing popularity, it remains under threat because of its persistence with an investment-based portfolio outcome. Therefore, it can be concluded that this report marks the need for formulating an overall strategy to foster growth within the Islamic capital market with improved transparency of *sukuk* markets and efficiency of related businesses associated with *sukuk* markets (IFSB 2025).

The Islamic financial industry's (IFI) ability to overcome major challenges—the global financial crisis of 2008 (Haneef and Smolo 2013; Smolo and Mirakhor 2010) and the recent wave of COVID-19 (Smolo et al. 2022, 2023, 2024)—helped it remain an active participant in the market. Unfortunately, it still encounters problems like low market penetration and lack of innovative products and services, among others (DIEDC & DinarStandard 2018). Moreover, with the rapid evolution of the digital revolution era comes not only challenges but also more complex opportunities for this sector. Subject to appropriate governance, regulatory frameworks, and technological integration, Islamic financial institutions may contribute to the development of more equitable and inclusive sustainable financial systems globally.

By far, digital technology is reshaping the global financial industry's way of functioning. The shift is bringing new and innovative solutions referred to as fintech. However, fintech is not just a technology trend. Rather, it is revolutionizing the way the financial system is handled by people, companies, and governments. While conventional banking and finance sectors have started to incorporate fintech in their operations, Islamic finance is at a crossroads actively weighing the advantages of embracing fintech versus the risk of losing relevance in a steadily digitizing economy (Hamadou and Suleman 2024; Smolo et al. 2020; Smolo 2021; Smolo and Raheem 2024b). The move towards digital finance forces us to reconsider the real essence of money. Several recent papers argue that money of today should not be regarded merely as a thing; rather, it is a promise—a social agreement to pay. This promise is at the core of how banks function and is guaranteed by the government authorities. All these make the use of old Islamic concepts of money more difficult that were once thought of either as commodity-based (*naqd*, *thaman*) or as a medium of exchange directly linked to intrinsic value.

With the rise of various things like central bank digital currencies (CBDCs) and private digital assets, it is high time that we deliberate on how Islamic regulations can accommodate these new forms of money and payment. Besides financial innovation, fintech—on the condition that it complies with Islamic principles (*maqasid al-Shari'ah*)—may become a powerful tool in restructuring the economy on the basis of Islamic ethical principles (Khairuddin et al. 2025).

The present Islamic fintech ecosystem has its ups and downs. In the 2022 Islamic Finance News (IFN) Financial Innovation Report, it was mentioned that a few Islamic fintech startups were forced to shut down due to lack of funding and regulatory issues. On the other hand, some Islamic fintech startups in areas like peer-to-peer lending, crowd-funding, and digital banking managed to expand and prosper. Globally, the number of Islamic fintech startups increased by almost 30% from 2021 to 2022. This shows that there is demand for digitally delivered Shari'ah-compliant solutions and that investors are willing to support such ventures. This is to say that Islamic fintech success is not a certainty but conditional on how well it embraces the challenges brought on by the digital age. Institu-

tions capable of transformation are more likely to be the leaders in setting the direction of the future of Islamic finance and economics (IFN 2022).

This paper investigates the connection between Islamic finance and fintech within the context of civilizational renewal. It examines the ways in which fintech can be employed as an instrument to facilitate the objectives of Islamic finance, including facilitating justice, financial inclusion, and social welfare. This paper has three objectives: (i) to define the concept of contemporary money and the digital changes that take place in it, which can be adjusted to the Shari'ah values; (ii) to discuss the potential offered by fintech to Islamic finance and the challenges it poses; and (iii) to suggest how one can utilize fintech as a civilizational instrument to improve society (*maslahah*) and promote the *maqasid al-Shari'ah*.

This paper employs a narrative literature review supplemented by industry analysis from authoritative sources. The manuscript draws on the following: (1) peer-reviewed scholarship in Islamic finance and fintech published primarily during the 2015–2025 period; (2) industry reports identified through systematic searches of major fintech and Islamic finance industry databases, specifically reports from the Islamic Finance News (IFN), including the 2022 Financial Innovation Report and annual industry surveys; (3) regulatory and policy documents from the Bank for International Settlements (BIS), Financial Stability Board (FSB), Bank Negara Malaysia (BNM), and the Islamic Financial Services Board (IFSB); and (4) central bank working papers and technical reports, particularly from BNM and regional central banks conducting CBDC research. The 2022 IFN Financial Innovation Report was selected as a primary reference because it provides comprehensive data on Islamic fintech startups, funding trends, and regional performance, meeting the following criteria: (a) peer-reviewed methodology, (b) direct access to market data from industry participants, (c) alignment with the historical period covered (2020–2025), and (d) explicit focus on Shari'ah-compliance requirements. Reports are cited when they provide data unavailable in the academic literature, are published by recognized institutions with transparent methodologies, and have been independently verified or cited by multiple academic sources.

In this way, this study will contribute to the existing literature in the field of Islamic fintech by offering both theoretical and practical understanding. It views contemporary money and CBDCs through the lens of Shari'ah. It also reports on how fintech impacts the Islamic financial sector and reports on trends in Islamic fintech in the world. The study outcomes are likely to help researchers, practitioners, and policymakers understand the transformative character of the Islamic finance and digital innovation nexus.

2. Principles of Islamic Finance

2.1. Shari'ah Principles of Economics and Finance

Shari'ah or Islamic law forms the basis of Islamic finance. The major sources of Shari'ah are the Qur'an and the Sunnah, the consensus of scholars (*ijma'*), and analogical reasoning (*qiyas*). It emphasizes ('*adl*), justice (*qist*) and public welfare (*maslahah*) on one side and forbids harmful practices such as charging of interest (*riba*), uncertainty (*gharar*), and gambling (*maysir*). Furthermore, it promotes risk-sharing transactions, asset-based deals and ethical investments in socially and economically just projects (Askari et al. 2010, 2012; ISRA 2011; Smolo 2013). Consequently, Islamic finance is a means to achieve more important objectives of Shari'ah (*maqasid al-Shari'ah*), including the preservation of faith, life, intellect, progeny, and wealth.

In this view, Islamic finance is an epistemological and normative regime unlike conventional finance. The scholarly literature characterizes conventional finance as emphasizing efficiency and profit maximization within market-driven frameworks, while Islamic finance scholarship situates economic activity within normative ethical and civilizational objectives

derived from Shari'ah principles (Mirakhor and Smolo 2011, 2012, 2014). Smolo (2021) argues that Islamic fintech can rejuvenate the ethical aspect of finance by introducing the elements of transparency, fairness, and inclusivity to digital platforms.

2.2. Maqasid Al-Shari'ah and Socioeconomic Justice

At the heart of Islamic finance lies the *maqasid al-Shari'ah* framework—guiding principles of the Islamic financial system—which provides the overarching objectives that financial activity must serve.¹ According to Al-Ghazali (1937), *maqasid al-Shari'ah* calls for the preservation and protection of religion (*hifz al-din*), intellect (*hifz al-'aql*), lineage (*hifz al-nasl*), life (*hifz al-nafs*), and wealth (*hifz al-mal*). Al-Qarafi (1994) connected *maslahah* (public interest) with *maqasid*, saying that a purpose (*niyyah*) is valid only if it brings good or prevents harm. In this way, *maqasid al-Shari'ah* is a key principle of Islamic law that promotes justice, eases hardship, and encourages cooperation for the benefit of society. This reflects the realization of *maslahah*, which scholars often use as a synonym for *maqasid*. Ibn Ashur (2001, 2006) described *maqasid al-Shari'ah* as focusing on maintaining order, achieving benefits, preventing harm, and empowering the nation.

Khairuddin et al. (2025) argue that before measuring the performance of a novel financial tool such as CBDCs or digital assets, they must be understood as part of a bigger picture that includes human purpose and ethics. Their study led them to argue that contemporary money can be seen as a mixture of debt (*dayn*) and conventionally recognized money (*nuqud istilahiyya*); thus, it is vital to observe that modern-day financial systems are subject to the principles of fairness, *riba*, and exchange integrity.

This recognition is almost like a breath of fresh air indispensable for the Islamic fintech sector. One way, ironically, digital technologies have the capability to launch directly into the sky of unjust practices, but on the other side of the coin of the same technologies, one can also find inclusion and justice at the end of the tunnel. To give an example, fintech may be the key to unlock financial services to poor communities by capitalizing on (or, on the other hand, by increasing) accessibility, making transaction costs minimal, and developing financial literacy (IFN 2022). If fintech follows the *maqasid* path, it becomes an instrument with the power to bring about social and economic justice.

2.3. Historical Role of Islamic Finance

Historically speaking, the financial systems prevalent in Islamic societies were not only the mediums which facilitated trade but were themselves the tools with which sociability was constructed and ultimately helped increase the flourishing of Muslim civilization. The application of *sakk* (an ancient practice of cheque payments), *qirad* or *mudarabah* (profit-sharing schemes), and *waqf* (endowed charities) were methodologies with which businesses were able to grow and become more expansive but at the same time were made welfare and just (Chapra 2000). It was because of these tools and techniques that Islam's financial system was able to demonstrate how it could adapt with time itself but still retain its integrity with ethics unswayed.

In fact, financing based on Islam has always been like a double-edged sword because, on the positive side of the sword, financing acts as an instrument that enhances economic transactions, while, on the other hand, financing enhances the civilizational concept of Islam because it helps create an overall Islamic economy where, among other issues, prosperity, justice, and taking care of those who cannot protect themselves will be taken into account. It can thus be noted that financing related to Islam not only requires money-related activities; rather, it has other ideal objectives such as justice and human well-being.

Consequently, the IFI is more than just a niche industry providing alternative financing methods that comply with Shari'ah. It is a project of a different civilization aimed at aligning

economic activities with ethical and social goals. This perception is justified by instrumental moral grounds, historical examples, and the *maqasid* paradigm. It is so because fintech is a platform of unparalleled financial transformation that provides a rare opportunity for Islamic finance to revive this mission in the digital age. Conventional fintech can be challenged by Islamic fintech by applying justice, transparency, and inclusion within digital platforms. It can also show that finance can be utilized positively towards humanity under divine guidance. Having established the historical role and civilizational mission of Islamic finance, it is essential to examine how contemporary monetary transformations—particularly the digitization of money—intersect with Shari’ah principles. The next section turns to these foundational questions: how should modern money, central bank digital currencies, and private digital assets be understood within Islamic legal frameworks, and what implications do these monetary innovations hold for the integrity and applicability of Islamic finance principles in the digital age?

3. Modern Money, Digital Assets, and Shari’ah Implications

To properly assess the effects of modern money on Islamic finance, one must first grasp its nature. Conventional economics tends to describe the concept of money in terms of its functions as a medium of exchange, unit of account, store of value, and standard deferred payment. Such definitions, however, cannot capture the essence of money. According to a recent study by Bank Negara Malaysia (BNM), modern money is most effectively regarded as a credit relationship—a network of interconnected promises and obligations between individuals, business, banks, and the government (Khairuddin et al. 2025). In this sense, the concept of money is not an object but a relationship; that is, it is the financial property of an owner and, at the same time, the debt of the issuer.

This understanding is important for Islamic law. Classical *fiqh* recognized money based on physical commodities, like gold and silver, which have real value. It also had some limited acceptance of money based on debt. In contrast, modern money is mainly based on debt, which raises questions about how it fits into Islamic legal classifications. Khairuddin et al. (2025) propose a hybrid approach, classifying modern money simultaneously as *dayn* (debt) and *nuqud istilahiyya* (money by convention), which allows Shari’ah rules governing debt, *riba*, and exchange to be applied to modern monetary systems.

As a result, the introduction of central bank digital currencies (CBDCs) represents a fundamental transformation of monetary systems globally. In contrast to decentralized cryptocurrencies, CBDCs are digital currencies issued and backed by sovereign authorities. Academic and policy research identifies potential advantages including financial inclusion, reduced transaction costs, and enhanced payment system resilience (Alam et al. 2019; Hamadou and Suleman 2024; Khairuddin et al. 2025; Smolo and Mahomed 2024). However, a balanced assessment requires engagement with critical perspectives on CBDC implementation that extend beyond technical efficiency considerations.

Recent scholarship highlights substantial governance, privacy, and civil liberties concerns associated with CBDC architecture. Guley and Koldovsky (2023) identify critical risks including centralized state surveillance of all transactions, potential for arbitrary account freezing, and diminished user privacy compared to physical cash or even commercial bank deposits. The authors note that “the central bank will have access to all transactions and user data, which can raise privacy issues if these data are controlled by a large organization” (p. 59). This concern extends beyond individual privacy to encompass broader questions of state power over economic activity.

Elsayed and Nasir (2022) further emphasize that CBDC programmability—often presented as a technical advantage that enables automated compliance and instant settlement—also creates the capacity for unprecedented monetary control mechanisms. Specifically,

programmable CBDCs could theoretically implement negative interest rates that penalize savings, enforce spending mandates, or restrict transactions to approved categories, all without legislative oversight or user consent. As the authors observe, “there are still many unknowns. . . how will these more recent policies be conducted differently under CBDCs is uncertain. For instance, will there be scope for a negative interest rate policy?” (p. 3). From a Shari’ah perspective, such programmability features that compel economic behavior or erode wealth preservation (*hifz al-mal*) would require careful *maqasid*-based evaluation.

Privacy concerns are particularly acute in CBDC implementation. Unlike decentralized cryptocurrencies that provide pseudonymity for transactions, or physical cash that enables complete anonymity, CBDCs create comprehensive, centralized ledgers of economic activity accessible to monetary authorities. Guley and Koldovsky (2023) document that “privacy concerns have been a reason for the delayed implementation of CBDC in many developed countries” while noting that “in some more centralized areas where privacy is not a major concern, CBDC development has progressed more rapidly” (p. 60). This observation suggests a fundamental tension between technological capability and ethical governance—the same infrastructure that enables efficient zakat distribution could equally enable intrusive surveillance incompatible with Islamic principles of dignity and autonomy.

The comparison between CBDCs and private digital currencies further illuminates governance trade-offs. While decentralized cryptocurrencies face Shari’ah scrutiny regarding asset-backing and speculative volatility (Khairuddin et al. 2025), they distribute power across network participants rather than concentrating it in state institutions. Conversely, CBDCs offer regulatory certainty and stability guarantees but concentrate unprecedented control over monetary infrastructure. Guley and Koldovsky (2023) systematically contrast these models, noting that cryptocurrencies are “decentralized, non-fiat currency” with “high security and anonymity characteristics”, whereas CBDCs are “centralized, regulated” with reduced user privacy (p. 59). Neither model unambiguously satisfies all *maqasid* requirements; each presents distinct alignment potentials and governance challenges.

From an Islamic finance perspective, CBDC evaluation must extend beyond technical Shari’ah compliance (avoidance of *riba*, *gharar*, *maysir*) to encompass *maqasid*-based assessment of power structures, user agency, and wealth preservation safeguards. The critical question becomes the following: under what architectural and governance conditions can CBDCs advance rather than undermine objectives of justice (*‘adl*), wealth preservation (*hifz al-mal*), and community welfare (*maslahah*)? As discussed in Section 6, this requires embedding Shari’ah oversight, user consent mechanisms, privacy protections, and constraints on programmability within CBDC design from inception—not as post-implementation additions.

The biggest question from a *fiqh* standpoint is whether one can consider CBDCs as an extension of current fiat money (*nuqud istilahiyyah*) or a new class of digital financial instruments. Based on BNM research, CBDCs must abide by the rules of contemporary money—they should not involve *riba*, must facilitate fair trade, and must be free from *gharar* (excessive uncertainty). From an Islamic finance perspective, CBDCs present both opportunities (e.g., cross-border Shari’ah-compliant settlement systems and digital *sukuk*) and challenges (e.g., surveillance risks that undermine user dignity, programmability that enables wealth confiscation, and the difficulty of guaranteeing Shari’ah governance frameworks for state-controlled infrastructure).

Unlike CBDCs, private digital assets, such as cryptocurrencies and stablecoins, have been a major point of controversy among Shari’ah scholars. For instance, Bitcoin is not backed by any real asset and there is no one backing it up. This situation has made a few scholars ask if these can be considered real “money” under Shari’ah (Khairuddin et al. 2025). On the contrary, stablecoins and asset-backed tokens are more similar to present financial products. They only open new ways to create digital solutions that Shari’ah can allow.

Smolo and Mahomed (2024) examine the compatibility of digital money with Shari'ah principles in Islamic finance. The authors highlight the ethically and legally problematic situations that are caused by the use of cryptocurrencies. In particular, the fact that these currencies are not backed by tangible assets and are not regulated by any central authority. They view the question of Shari'ah legality for cryptocurrencies as quite uncertain but acknowledge that these technologies adhere to Islamic principles of clarity and safeguarding of wealth. In order to resolve these difficulties, they recommend creating digital currencies in conformity with Shari'ah, introducing transparent regulatory framework(s), and increasing financial literacy.

The methods by which Islamic financial institutions (IFIs) operate and strategize need to be reconsidered as money is becoming digital. First of all, IFIs have to decide whether new monetary instruments like CBDCs and stablecoins are in line with Shari'ah law. Secondly, they are expected to invest heavily in technology to interlink digital payments, blockchain contracts, and artificial intelligence (AI) compliance tools. Ultimately, such reforms should be connected to the *maqasid al-Shari'ah* so that fintech is employed to promote financial inclusion, diminish exploitation, and improve justice. It will handle the money system and do it in the right way by not only ensuring that justice is promoted but also by not allowing inequalities to be deepened.

The IFN Financial Innovation Report reveals that Islamic fintech startups are on the rise globally, which is a good indication that there is a demand for digital finance that adheres to Shari'ah principles (IFN 2022). With this understanding of how digital money and assets are reshaping monetary foundations, we now turn to examine the technological innovations themselves. The following section analyzes fintech as a conceptual framework and empirical phenomenon, exploring its constituent technologies, global adoption trends, and specific implications for Islamic finance institutions seeking to navigate this transformative landscape.

4. Fintech: Concepts, Trends, and Implications for Islamic Finance

Financial technology, or fintech, is a term that describes innovative technology aimed at improving financial services. The term has been in use since the 1970s and initially referred to the combination of finance and computing to make operations such as payments and trading more efficient (Bettinger 1972). Since 2010, we have witnessed a rapid development of this concept due to various factors such as cloud computing, mobile devices, big data, artificial intelligence (AI), application programming interfaces (APIs), and blockchain (BIS 2021, 2025). Some people consider fintech as a part of a bigger movement towards digitization, which is allowed by Shari'ah law as long as it does not involve *riba*, *gharar*, and *maysir*. Thus, Islamic fintech can facilitate issues such as risk-sharing, financial inclusion, and the growth of ethical practices (Smolo et al. 2020).

A conceptual model for fintech is the “fintech tree.” The BIS and supervisory bodies use it to identify innovations that may lead to prudential and conduct risks (Ehrentraud et al. 2020). The tree identifies three different levels: the first one includes enablers like cloud infrastructure, machine learning, cryptography, biometrics, and APIs; the second one has products such as digital payments, electronic identity, know-your-customer (KYC) processes, data analytics, and credit scoring; and the third one consists of business models including neobanks, wallets and super-apps, crowdfunding and peer-to-peer platforms, robo-advisory and wealthtech, and insurtech. Regtech and supotech, which are technologies that help governance, compliance, and supervision, form a comprehensive framework (BIS 2023). From the perspective of Islam, the majority of these tools do not have inherent ethical value. The ethicality of their design is what matters the most. Platforms that apply Shari'ah principles at the very beginning—utilizing asset-backed tokenization, Accounting

and Auditing Organization for Islamic Financial Institutions (AAOIFI)-compliant smart contracts, or robo-advisors with Shari'ah screening—can be in harmony with *maqasid al-Shari'ah* goals. On the other hand, improper design can lead to increased non-compliance or consumer harm, hence the reason why governance, standardization, and tech knowledge are equally important (Smolo 2021; Smolo et al. 2020; Smolo and Mahomed 2024).

Investment and acceptance trends have altered the landscape of the fintech industry, though with substantial volatility. The sector experienced significant growth during 2020–2021, followed by a correction period in 2022–2023, reflecting market maturation and risk recalibration. According to CB Insights (2025), fintech funding in the second quarter of 2025 reached approximately \$10.5 billion in deal value, representing a stabilized market with fewer mega-rounds compared to the peak years of 2021–2022. This stabilization may indicate increased selectivity in investor allocation and a shift toward fundamentals-based investment rather than speculative expansion.

Real-time payments have become a crucial part of the digital infrastructure. ACI Worldwide (2024) recorded \$266.2 billion in real-time payment transaction value worldwide in 2023, constituting nearly 20% of all electronic payment volumes globally. This metric measure (transaction value, not count) indicates significant penetration and standardization. Payment systems including Brazil's PIX, India's UPI, Malaysia's DuitNow, and the United Kingdom's Faster Payments Service (FPS) have become established as standard transaction settlement methods across their respective jurisdictions, demonstrating both regulatory acceptance and user adoption.

Open banking and open finance go even further, with regulations requiring secure sharing of data and allowing third parties to make payments. For instance, over 11 million customers were sharing their data actively every month as of March 2025 in the UK alone, while payment volumes were also increasing (OBIE 2025).

The markets for Islamic finance were on the same path too. IFN (2022) reported the evolution of platforms in areas of payments, crowdfunding, and wealthtech, and simultaneously it recorded the withdrawal of licensing and consolidation during the funding downturn period—the most common features of shake-out dynamics that eventually result in better governance and sustainability.

There are five technological trends that can be looked at for the future. In fact, AI and analytics are progressively embraced for identity verification, credit scoring, fraud detection, customer assistance, and even compliance. Numerous articles have been published on the revolutionary impact of these technologies, but, at the same time, these technologies tender issues of bias, lack of transparency, and susceptibility to cyber-attacks (Crisanto et al. 2024; FSB 2024). Moreover, in the context of Islamic finance, AI can be a useful tool in the continuous monitoring of religious laws, and if the data is segmented by religious labels and smart contracts verification is done through proper regulation.

The other prominent shift is that of API-first finance and services that utilize API standards and permissioning systems to integrate financial services with other platforms that were not necessarily related to finances. This kind of arrangement not only alters distribution and economics but also raises policy issues that the Financial Stability Board (FSB 2019) recognized, such as those related to the market power of BigTech firms that are based on data.

The third area is about the use of tokenization and programmable finance. BIS (2025) indicates that tokenized currencies and assets can lead to instant, programmable settlement. Such innovations made be a helpful to Islamic finance, e.g., as asset-backed tokenized *sukuk*, but, at the same time, synthetic leverage or commingling protections have to be put in place.

The fourth path is about digital public rails that combine digital ID, payments, and data-sharing. The connection of such systems can lower the costs of financial inclusion, and thus, *zakat* and *waqf* distribution or micro-mudharabah contracts will be the beneficiaries (Khairuddin et al. 2025). The last one is regtech and suptech, which are growing as institutions implement machine-readable regulations and real-time monitoring, while supervisors use network analytics and anomaly detection. These instruments can serve as Shari'ah compliance monitors that will become increasingly crucial in complex digital ecosystems.

Islamic fintech can take the lead in aligning innovation with inclusion, risk-sharing, and real-economy linkages, thereby opening up new opportunities. Through digital platforms, profit-and-loss sharing can be made operational with less coordination cost by means of crowdfunding and revenue-based financing, whereas tokenization and Internet of Things (IoT) oracles can facilitate the grounding of financial backing in the correct assets. These concepts, being fair, just, and anti-hoarding in nature, can be great *maqasid* supporters, provided that contracts and disclosures are user-friendly and that average users can grasp them. However, there are still big problems.

The question is now how to implement fintech, not if it can be allowed. Several issues complicate Shari'ah governance in the digital age. This includes problems with standards, questions about the legal status of electronic contracts, and a shortage of experts in both tech and Islamic law. Shari'ah screening of digital contracts requires religious knowledge and the ability to scrutinize code, data processes, and the way algorithms can make choices (Smolo et al. 2020; Smolo and Mahomed 2024; Smolo and Raheem 2024b). Changes in the market are even more challenging; the funding reductions of 2022–2023 resulted in mergers and acquisitions and regulators enhancing licensing regulations, which led to issues but also generated more resilient companies (IFN 2022). Also, fintech poses greater questions about the flexibility of money. The policy decisions of central banks to test digital currencies (CBDCs), enhance real-time payment systems, establish the legal status of tokenized deposits, and stablecoins will affect the design of Islamic products and settlement (Khairuddin et al. 2025).

The sum of these trends points to a conceptual framework wherein the understanding of fintech as a set of technologically neutral tools of ethics would be the right perception. The effectiveness of this method is determined by these tools, in combination with Shari'ah-compliant contract structures, good governance, and consumer protection. Among near-term drivers, there are instant payments, open finance, and AI, whereas a medium-term wildcard is tokenization. The regulatory trends are evolving from experimentation towards operationalization through regtech and suptech developments. In the case of Islamic finance, it should prioritize concentrating on application cases of strengthening the linkage of real assets and profit and loss sharing instruments. At the same time, it should focus on reducing the cost of financial inclusion by using digital platforms for *zakat*, *waqf*, and micro-SME finance, and integrating auditable Shari'ah controls within code and data. Fintech is therefore both a source of opportunity and a challenge—a way of furthering *maqasid*-aligned results (if implementation is done properly) or a new source of risks should governance and design be inadequate.

The relationship between fintech and Islamic finance sustainability presents contested terrain among scholars regarding substance versus form in Shari'ah compliance. While institutional reports emphasize efficiency gains and potential for inclusion (IFN 2022; IFSB 2025), critical voices question whether digital transformation genuinely advances *maqasid* objectives or merely replicates conventional finance mechanisms under Islamic labels. Ebrahim and Abdelfattah (2021), in their analysis critically examine the fundamentals of major Islamic finance instruments in light of the substance-over-form principle, arguing that “the IF industry needs to focus on the economic substance of the products offered

to their clients” rather than “re-packaging existing conventional products under different arrangements and formats to make them appear as Sharia-compliant” (p. 883). This critique extends naturally to fintech applications. Blockchain-enabled smart contracts, AI-driven robo-advisors, and digital *sukuk* platforms may achieve legal Shari’ah compliance while failing to operationalize the risk-sharing, real-economy linkage, and ethical accountability principles that distinguish Islamic finance epistemologically from conventional frameworks. Similarly, Hamour et al. (2019), examining contemporary form-substance tensions, emphasize that AAOIFI’s emphasis on contractual form in accounting treatment diverges from conventional frameworks’ focus on economic substance, creating interpretive challenges for digital financial instruments where form and substance may conflict. These scholarly perspectives underscore that fintech is neither inherently aligned nor misaligned with *maqasid* objectives; its civilizational contribution depends on continuous critical evaluation of whether technological implementations serve substantive Islamic finance principles or merely satisfy formal compliance requirements.

5. The Role of Fintech in the Evolution and Expansion of Islamic Finance

The convergence of fintech and Islamic finance presents potential for significant industry evolution toward greater accessibility while maintaining ethical and Shari’ah principles. Fintech platforms may operationalize traditional Islamic contracts through digital channels, potentially enhancing accessibility and Shari’ah compliance, contingent upon robust governance and proper design implementation from inception. As the most conspicuous examples of this union, we can mention the origination of Shari’ah-compliant peer-to-peer (P2P) lending, crowdfunding, and digital banking, which, essentially, transform the financial intermediation and financial inclusion processes.

An Islamic finance sector would benefit most from the advent of technology in the sector if tech would be able to reimagine a contract of partnership, e.g., *musharakah* or *mudharabah*, in the modern scenario. Both P2P and crowdfunding enabled the rise of a group of smaller investors, who pooled their money online and started off projects and businesses. They now have the opportunity to choose a route that is different from the usual debt models either in conventional or in Islamic finance. In addition, the platform takes away the middleman role, and the contract is between the risk bearer, i.e., the investor, and the entrepreneur, which is also consistent with the moral code of Islamic finance. Furthermore, these financial instruments are being tokenized by means of *sukuk* digitalization on blockchain-based platforms, which makes a procedure more affordable and less tedious. In fact, next-gen technology will be a confirmation of the clearness of possession, and any payment can be performed automatically by smart contracts, which will be more transparent and open to an average investor while fulfilling Shari’ah requirements (IFN 2022).

The global expansion of digital banking infrastructure presents significant opportunities for Islamic finance to provide services that are not only scalable but also low-cost. In distinction to the banks working under the traditional model, Islamic digital banks perform their functions by integrating cloud technology and mobile apps to reach people who are not yet in the banking system. The situation is particularly applicable in Muslim countries where there are masses of unbanked people (IFN 2022; World Bank 2018). These banking institutions have Shari’ah law embedded in their architecture and are the result of robust regulatory measures taken in such areas as Saudi Arabia, Malaysia, and the United Arab Emirates. The baggage that comes with the establishment of these new banks is more than just a simple change in the game; it is a strategy for the bank to be able to reach the unbanked by integrating the Shari’ah-following services into user-friendly platforms.

The question of whether or not the Islamic fintech sector can manage to thrive has already been answered by the many newly launched enterprises in various parts of the world. For instance, to meet the growing international demand for automated and low-cost wealth management, Wahed Invest was the first to onboard robo-advisory to Shari'ah-compliant investments. In Indonesia, there is ALAMI, a platform that enables P2P lending to small- and medium-sized enterprises through risk-sharing-based agreements, and the company raises capital through this method. This would solve one of the biggest financing problems, and, at the same time, it would provide completely transparent data on the impact of the loans. In addition, the example of the Islamic fintech industry to new assets can be cited by CoinMENA, an authorized cryptocurrency trading platform, which offers digital asset trading that is compliant with Islamic law. The role of digital currencies in the context of Islamic finance has been extensively covered by research scholars, who now explore how virtual assets can be made to comply with Shari'ah rules that deal with money and physical assets (Smolo and Mahomed 2024). These examples serve as an indication of various types of innovations under the umbrella of the Shari'ah and as a result, ethics and business can be seen to be functioning together.

Without a doubt, the increase in financial inclusion as a result of Islamic fintech, and the subsequent decrease in poverty as a consequence of it, may be the largest contribution of the Islamic fintech sector. The use of fintech technologies can bring millions of unbanked people and small-medium enterprises (SMEs) from all over the world closer to the financing that is now out of their reach. The most striking example of this is the digitalization of charitable and redistributive instruments such as *zakat* and *waqf*. By monitoring assets and making reports in a transparent manner, digital platforms can help donors gain trust. This, in turn, makes it easier to ensure that the donations actually go to the people whom they are intended to help. In addition, by utilizing mobile systems to deliver *zakat*, the distribution of the aid can be concentrated at places where it is most necessary, and the process of giving can be done more efficiently with less waste. This refers to the Islamic Shari'ah, whereby resource utilization meets those objectives. Islamic fintech offers something more beyond what traditional finance can offer. It connects innovative thinking with ethics that emphasize equality and inclusion. These would not only benefit innovative and robust financing systems but would also lead to a more ideal societal setup in general. Yet potential alone does not guarantee civilizational impact. The critical question becomes the following: under what conditions can fintech genuinely serve as a civilizational tool rather than merely another financial innovation? The next section develops an analytical framework grounded in *maqasid al-Shari'ah* to evaluate when and how fintech advances Islamic civilizational objectives, providing explicit criteria against which specific technologies and implementations can be assessed.

6. Fintech as a Civilizational Tool: Criteria and Framework

The designation of fintech as a 'civilizational tool' requires precise operationalization. Rather than an inherent property of fintech itself, fintech's role as a civilizational tool depends upon three interconnected conditions: (1) architectural design embedding Shari'ah principles and *maqasid* alignment from inception rather than post-implementation compliance verification, (2) robust governance frameworks ensuring accountability, transparency, and user agency, and (3) integration within digital public infrastructure supporting equitable financial inclusion and wealth distribution aligned with *maqasid al-Shari'ah* objectives.

To make these conditions assessable, we propose four explicit evaluative criteria grounded in *maqasid al-Shari'ah*:

1. **Maqasid Advancement:** Does the fintech application advance the preservation of faith (*din*), life (*nafs*), intellect (*'aql*), lineage (*nasl*), and wealth (*mal*)? Specifically, does

- it enhance fairness, reduce exploitation, expand access to justice-oriented financial services, and enable equitable wealth circulation?
2. Prohibition Compliance: Does the design eliminate *riba* (interest/unjust enrichment), *gharar* (information asymmetry/excessive uncertainty), and *maysir* (gambling/excessive speculation)? Can users understand contractual terms, ownership structures, and underlying assets with clarity?
 3. Governance Integrity: Is Shari’ah oversight embedded in the code, algorithm, and contract architecture from design inception, not merely applied through post-implementation review? Are decision-making processes transparent and subject to independent audit?
 4. Community Empowerment: Does the tool reduce information asymmetry, minimize transaction costs, enhance user understanding and agency relative to conventional alternatives, and enable meaningful participation in governance decisions?

These criteria show that fintech functions carry both alignment potential and governance requirements; fintech becomes a civilizational tool only when such controls are integrated into system architecture and institutions, not appended after primary development.

To make these criteria operational, Table 1 presents a concise Fintech–Maqasid Alignment Framework that maps key fintech functions to *maqasid* objectives, typical risks, and required governance controls.

Table 1. Fintech–Maqasid Alignment Framework.

Fintech Function	Primary Maqasid Objective(s)	Alignment Potential	Key Risks	Core Governance Controls
Payment and settlement (real-time rails, blockchain)	<i>Hifz al-mal</i> (wealth)	Reduce counterparty risk; lower costs; broaden wealth circulation	Cyber-attacks; technical opacity; transaction surveillance	Strong cybersecurity; protocol transparency; Shari’ah-informed data-governance and liability rules
AI-based credit scoring and KYC	<i>’Adl, hifz al-’aql</i> (justice)	Fairer access to credit; faster onboarding; better risk pricing	Algorithmic bias; non-explainable decisions; privacy violations	Explainability standards; regular bias audits; data minimization; consent and appeal mechanisms
Asset tokenization and smart contracts (e.g., <i>sukuk</i>)	<i>Hifz al-mal, qist</i> (equity)	Democratize investment; enable transparent profit-and-loss sharing	Commingling; synthetic leverage; opaque code	Verified asset-backing; prohibition of synthetic exposure; auditable smart contracts; tiered governance with investor voice
Digital <i>zakat</i> and <i>waqf</i> platforms	<i>Hifz al-nafs, maslahah</i> (public interest)	Increase reach and timeliness of transfers; strengthen donor trust	Beneficiary surveillance; centralization; fragmentation	Privacy-preserving ID; multi-stakeholder governance; interoperability standards; Shari’ah-compliant reporting

Source: Author’s own compilation.

Two brief case analyses illustrate how the same technology can either advance or undermine *maqasid* depending on whether these criteria and controls are satisfied.

First, CBDC programmability: A central bank digital currency whose code allows for the automated calculation and distribution of *zakat* or targeted transfers to vulnerable groups can advance *hifz al-mal* and *maslahah* by lowering frictions and leakages. At the

same time, programmable features that enable negative interest rates, arbitrary freezing of balances, or pervasive transaction-level surveillance threaten wealth preservation and privacy, creating new forms of *gharar* and potential abuse of power. The framework therefore suggests that CBDs can only serve as a civilizational tool if programmability is constrained ex-ante by Shari'ah-based limits on monetary manipulation, strong privacy protections, and transparent oversight mechanisms.

Second, AI credit scoring for Islamic finance: Well-governed AI models that exclude prohibited variables, undergo periodic bias testing, and provide understandable reasons for approval or rejection may promote *'adl* by widening access to finance for SMEs and under-banked households. Conversely, opaque “black-box” models trained on historically biased data can embed and scale discrimination, while leaving applicants unable to understand or contest adverse decisions. In terms of our criteria, such systems would fail prohibition compliance (due to *gharar* in decision logic), governance integrity (no meaningful audit trail), and community empowerment (no real agency for affected users).

Taken together, the criteria and framework clarify that fintech's contribution to Islamic civilization is contingent rather than automatic; the same function can either support or undermine *maqasid al-Shari'ah* depending on how risks are identified and governance controls are designed.

The four evaluative criteria proposed above are grounded in established Islamic legal scholarship and contemporary regulatory frameworks. The criterion of *maqasid advancement* derives from classical *maqasid* theory articulated by Al-Ghazali (1937), systematized by Ibn Ashur (2001, 2006), and applied to contemporary finance by Chapra (2000) and Khairuddin et al. (2025), who explicitly connect wealth preservation (*hifz al-mal*) to modern monetary instruments, including CBDs. The *prohibition compliance* criterion reflects consensus juristic positions on *riba*, *gharar*, and *maysir* codified in AAOIFI Shari'ah Standards (AAOIFI 2015)—particularly Standards 1, 8, and 17 on trading, *murabahah*, and investment *sukuk*—and operationalized by Smolo and Mahomed (2024) in evaluating digital currency compatibility with Shari'ah. The *governance integrity* criterion responds to IFSB-10 (*Shari'ah Governance Systems*) requirements that Shari'ah oversight be embedded structurally rather than applied superficially, a principle emphasized by Haneef and Smolo (2013) in their call for Islamic finance to move “beyond the *halal* stage to the '*halalan tayyiban*' stage” (p. 34). Finally, the *community empowerment* criterion operationalizes Qur'anic principles of wealth circulation (59:7) and agency, supported by contemporary scholarship on financial inclusion as a *maqasid* objective (IFN 2022; Smolo 2021).

The framework's application to specific fintech functions in Table 1 synthesizes regulatory guidance from the Bank for International Settlements (BIS 2023, 2025) on fintech risks, the Financial Stability Board (FSB 2024) on AI governance, and Islamic finance-specific analysis from Smolo et al. (2020) on Shari'ah fintech governance requirements. This integration of classical jurisprudence, contemporary regulatory standards, and technology-specific scholarship provides the analytical foundation for evaluating whether fintech applications advance or undermine civilizational objectives.

In other words, Islamic finance is designed to be universal. Conventional finance tends to exclude certain groups due to reasons like costs and other issues. However, the Islamic fintech has the potential to widen the money market to less privileged groups through digitized tools that can facilitate transactions. As an instance, crowdfunding allows minor investors to fund projects with little amounts, which was not doable before. Furthermore, P2P financing systems afford credits to these SMEs without requiring rigorous checks on their credit ratings; hence, these SMEs can easily grow at an enormous rate. These innovations are in line with the need for economic justice prescribed under Islam because they ensure that money does not “*circulate only among the rich*” (Qur'an 59:7). According

to the IFN Financial Innovation Report (IFN 2022), innovations brought about by fintech are already thriving in other parts of the world like Southeast Asia, the Middle East, and Africa and broadly reshaping the landscape of accessibility. This shows that fintech has huge potential within the mission of Islamic finance for inclusion.

Furthermore, apart from the aspect of inclusivity, fintech can address the basic challenge of trust within the financial sector. The aspect of trust underlies the financial transactions; however, as evidenced by the scandals that have been witnessed recently, it has not been true that strong trust relationships exist within the conventional banking system. Technology such as blockchain offers Islamic finance tools for re-establishing trust within the sector because of enhanced transparency and reliability with techniques such as smart contracts providing avenues for automatic rule compliance; hence, secure agreements would be achieved with no cheating anticipated to occur. On the other hand, Islamic social financing can benefit greatly from fintech because tools such as *zakat* and *waqf* using blockchain technologies would provide donors with instant info on how their money reaches their target; hence, trust would increase with stronger incentives to offer more money.

It is 'the next-generation Islamic fintech' because it is about 'digitally empowered Ummah,' or Muslim community, with 'tech alignment with ethical and sustainable finance practices.' The idea is not limited to Muslim communities only. The Islamic fintech is capable of showing the world how to undertake digital finance in an ethical manner and focus on honesty, fairness, and inclusion. Money is a human-made social concept, as Khairuddin et al. (2025) note. The money production, trading, and investment process is altered by fintech to the extent that it is possible to apply Islamic ethics to these processes. When adopted properly, the fintech effect is that Islamic finance can become an influential movement to cope with global challenges such as inequality, exclusion, and financial instability. However, the path from potential to realization is fraught with obstacles. Having established evaluative criteria and alignment frameworks, we must now confront the practical challenges and systemic risks that threaten to undermine Islamic fintech's civilizational promise if left unaddressed.

7. Challenges and Risks Related to the Islamic Fintech Ecosystem

The Islamic fintech is evolving at a fast pace, but it faces some challenges, which can hinder its progress or cause problems. Shari'ah compliance has become a big problem given that digital platforms are more complex and faster than regular finance systems. Classical Shari'ah boards are familiar with product checking in regular banking. However, they may not be that familiar with smart contracts and other emerging technologies.

This could lead to a surface-level compliance environment where permissible items can be determined without accurately comprehending related technological and legal points. Variations in interpretations among different Shari'ah committees create more problems among different zones because it divides markets and leaves businessmen and investors puzzled about areas like crypto trading and tokenization. The lack of formulated regulations could cause impediments to innovations while allowing for the loss of trust among parties (Smolo and Mahomed 2024).

Apart from those problems associated with the control of Shari'ah rulings, Islamic fintech faces stringent regulations and legal challenges. The firm would need to subject itself to two bodies of regulations at once; that is, it would need to align with traditional finance regulations (such as security regulations, consumer protection regulations, and money laundering regulations) while at the same time adhering to those of Shari'ah. According to the IFN Financial Innovation Report (IFN 2022), this poses an even more significant problem considering that regulations tend to lag behind innovations in technologies.

Startups have been facing difficulties in maintaining their licenses due to changing legal rules in various countries. Likewise, Islamic digital banks are not able to integrate with the regulatory sandboxes of conventional banks. The splitting of rules makes it difficult to conduct business across borders and thus limits the degree to which Islamic fintech firms can grow internationally.

Another huge risk in fintech is market instability. The IFN report (IFN 2022) states that the world has been shaken, which has led to the failure of a huge number of startups because of the lack of capital, unsustainable business models, and inadequate management. These issues are more detrimental to the Islamic fintech in Muslim majority countries. In particular, venture capital is not well-developed and regulated, and investors may face significant challenges in finding Shari'ah-compliant financing. The collapse of the crypto exchanges or even the failure of crowdfunding platforms is a bane to the entire system. Such volatility may destroy the prospects of financial inclusion that Shari'ah-compliant fintech offers and lead to exploitation and disappointment, which is contrary to the *maqasid al-Shari'ah*.

Also, there are significant ethical and cybersecurity issues with digital financial services. For example, an algorithmically determined decision-making process may have a bias that is not intentional; thus, it opposes the Islamic principles of equality. These algorithms are so complex that it is very difficult to make people accountable since users are not always aware of the decision-making mechanisms. Furthermore, any digital platform can be hacked, can suffer from fraud, or may have data leaked. These are threats that not only put consumers' money at risk but also raise concerns about privacy, which are the fundamental values of Shari'ah. Khairuddin et al. (2025) mentioned that financial systems are built on trust. When this trust is shattered, for instance, through cybercrime or poor system design, it damages the legitimacy of Islamic finance in the digital era.

Governance challenges extend beyond technical compliance to encompass fundamental questions about authority, legitimacy, and institutional capacity within Islamic fintech oversight. Recent scholarship highlights that fragmented Shari'ah governance stems not only from jurisdictional differences but from contested debates about who possesses authority to rule on emerging technologies. Wasim and Zafar (2024), in their systematic literature review of Shari'ah governance in Islamic banks, identify critical measurement challenges and disclosure deficiencies that impede effective oversight, noting that governance quality varies significantly across jurisdictions and institution types. This governance fragmentation is particularly acute in emerging Islamic fintech ecosystems where regulatory frameworks remain underdeveloped. Muryanto (2023), in a comparative study of Indonesia, Malaysia, and the United Kingdom, demonstrates how regulatory philosophy—not merely technical capacity—shapes fintech governance outcomes. Malaysia's proactive Islamic Financial Services Act (IFSA) 2013 framework contrasts sharply with Indonesia's more reactive approach and the UK's principles-based regulation, revealing that effective governance requires coordinated action across multiple institutional domains: Shari'ah supervisory boards, financial regulators, and technology platforms. The study emphasizes the urgency of creating Shari'ah compliance regulations, establishing standardized Shari'ah supervisory boards, and harmonizing Islamic fintech governance frameworks across jurisdictions to address weak supervision and low compliance that currently characterize the sector. Addressing these governance deficits requires not merely technical fixes but structural reforms that strengthen institutional coordination, enhance regulatory clarity, and cultivate specialized expertise at the intersection of Islamic jurisprudence and digital technology.

It is therefore misleading to characterize fintech as a 'solution' to Islamic finance challenges. Rather, fintech represents a powerful but morally neutral set of tools whose

outcomes depend entirely on the ecosystem within which they operate: governance quality, regulatory coherence, Shari'ah expertise integration with technological sophistication, institutional capacity, and adherence to the operationalized criteria outlined above. Without these ecosystem conditions, fintech risks replicating or amplifying the same inequities, information asymmetries, and exploitative mechanisms embedded in conventional financial systems. The distinction is not between fintech and traditional finance, but between fintech systems designed and governed according to maqasid principles and those designed without such ethical constraints. Given these challenges and the conditional nature of fintech's benefits, the final section outlines the strategic and policy directions necessary to cultivate enabling ecosystems in which Islamic fintech can fulfill its civilizational potential.

8. The Road Ahead for Islamic Fintech: Policy and Strategic Directions

For one, the ethical and technological side of the operation, governance, and construction of Islamic financial technology will have to change if it is to continue growing. Shari'ah compliance has to be integrated into the actual architecture and software of new technologies from the outset rather than merely checking the final products for their Shari'ah character. This demands the emergence of a completely new category of professionals: 'Shari'ah technologists.' These professionals would be proficient both in Islamic law and digital technology and would be, therefore, capable of identifying the conformity of algorithms, smart contracts, and blockchains with Shari'ah (Smolo and Mahomed 2024). Moreover, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB), among others, should coordinate their standards. This would pave the way for more normalization in this industry and would mean more transparency for businessmen and investors involved in this whole thing. The changes would shift this industry from finding ways to get permission or certification from Islam on obtaining only Shari'ah certificates to becoming more Shari'ah-compliant themselves.

Apart from these internal measures and industry-specific regulations, there is also a need for reforms at the regulatory level. Governments need to lock on to that spot where they can simultaneously encourage innovative activity in this sector while at the same time securing the stability of the financial system too. It would not be too rash to suggest that these sandboxes which rapidly gained popularity among fintech players need to be expanded to cover purposes related to Islamic financing too. In so doing, actual testing of these innovations like P2P lending and related crowdfunding tools following proper Shari'ah principles would need to comply with these regulations. Apart from these factors, cooperation among regulators brought together under nations with Muslim majorities would create an equal system of global regulations for utilizing new tools like Central Bank Digital Currencies (CBDCs) and tokenized assets too (Hidayat et al. 2024; Raheem and Smolo 2024). According to the IFN Financial Innovation Report (IFN 2022) disparities in these regulatory systems stand to be major impediments faced by Islamic fintech startups while looking at expanding operations on an internationally expanded level too. By working together, especially under the umbrella of the Organization of Islamic Cooperation (OIC), these countries will not only pave the way for a joint system but will also enhance financial inclusion for the whole *Ummah*.

Additionally, the development of Islamic fintech depends largely on infrastructure and human resource development. It is imperative for the industry to participate in the development of digital public infrastructure, such as digital identification systems and instant payment services, so that infrastructure development related to Shari'ah can progress smoothly at every level of development. In other words, infrastructure related to finances serves as a reflection of societal values; therefore, incorporating Islamic principles into infrastructure can achieve *maqasid al-Shari'ah*. Education to bridge knowledge gaps is equally

important to infrastructure development efforts. The purpose of research institutions and universities relates to expanding study programs related to finance and ethics related to Islam and technologies, respectively. Apart from that, capacity-building programs would greatly benefit regulators, boards of Shari'ah advisors, and businessmen too. Otherwise, the sector could experience technologies running at top speed without considering ethics.

Islamic fintech can become a leading factor of ethical finance worldwide. It not only promotes models that focus on risk-sharing principles but also acts as an alternative to traditional financing systems that cause inequality and create bubbles related to speculation. If Islamic fintech markets itself as culturally and religiously preferred, it can gain importance among Muslims and other people around the globe who are interested in transparent and sustainable financial models. This would not only make Islamic finance popular beyond an expert group but would also make it a leading factor in transforming in the civilization era related to digital technologies.

9. Conclusions

This paper has considered the meeting point between Islamic finance and fintech as viewed by *maqasid al-Shari'ah* and the Islamic civilizational mission. Fintech is not merely the latest technology; it has the power to reshape finance. It may either reenact the injustice of conventional financial systems or assist in making them much more just, transparent, and accessible to all people. In the case of Islamic finance, the problem and the opportunity are that fintech needs to be brought in line with its ethical principles in order to promote socioeconomic justice, maintain trust, and empower communities.

Conventionally, finance in Muslim societies has been two-fold since it has facilitated not only the practice of business but also the moral and social empowerment of the *Ummah*. Islamic finance—as exemplified through *shakk*, *waqf* and *sukuk*—highlights Shari'ah flexibility without breaching the tenets of equity and justice. The recent phase of this change in flexibility is now fintech. An example of the use of technology to operationalize Shari'ah in new and effective ways is P2P lending, crowdfunding, digital *sukuk*, and blockchain-enabled *waqf* and *zakat* platforms—just to name a few.

In the meantime, this paper points out that we need to act with caution. The Islamic fintech has been subject to critical examination because of poor Shari'ah governance, fragmented regulations, unstable funding, and what are termed ethical issues like algorithmic bias and cybersecurity issues. In order to cope with these problems, we need additional institutional consolidations, such as Shari'ah professionals with technical skills, reconciled rules and regulations, and well-developed digital infrastructure, and an intentional effort to integrate *maqasid* into the development process of products and systems.

Therefore, Islamic fintech could help the Muslim communities and the world to explore ethical and sustainable financing solutions. The Islamic fintech may be a substitute for the conventional patterns of finance by providing the elements of transparency, risk-sharing, and inclusiveness. This requires a shift from Shari'ah-compliant or simply “*halal*” financing to a “*halalan tayyiban*”, in which case fintech is no longer modified to comply with bans but is intended to address ethical or even social objectives.

In conclusion, Islamic finance faces both opportunity and risk in the digital era. Fintech may function as a civilizational tool for ethical finance, but only if three conditions are met: (1) *maqasid al-Shari'ah* principles are embedded in technological architecture and institutional governance from inception, (2) robust regulatory frameworks balance innovation with consumer protection and Shari'ah compliance, and (3) the Islamic finance industry invests in developing professionals with integrated expertise in both Islamic law and digital technologies. When these conditions are achieved, fintech may contribute to restoring ethical foundations in finance, expanding access for underserved populations, and ad-

vancing global financial systems toward greater justice and sustainability. Absent these conditions, fintech risks becoming merely another instrument for perpetuating inequality and exploitation.

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Abbreviations

The following abbreviations are used in this manuscript:

CBDCs	central bank digital currencies
BNM	Bank Negara Malaysia
IFIs	Islamic financial institutions
AI	artificial intelligence
APIs	application programming interfaces
KYC	know-your-customer
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
IoT	Internet of Things
P2P	peer-to-peer
SMEs	small-medium enterprises
IFSB	Islamic Financial Services Board
OIC	Organization of Islamic Cooperation

Note

- ¹ For a brief overview of *maqasid al-Shari'ah*, see [Smolo and Raheem \(2024a, 2024b\)](#).

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