

IMPLEMENTATION OF SHARIA PRINCIPLES IN FINTECH: CASE STUDY OF PT DANA SYARIAH INDONESIA

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Abstract: Indonesia is the country with the largest Muslim population in the world and has a strong presence in Sharia-based fintech. This is because they can offer solutions to the Muslim community that traditional financial institutions cannot provide. This study addresses whether Sharia Fintech adheres to Sharia principles. The purpose of this study is to examine whether Sharia Fintech is consistent with Islamic principles. This study is a qualitative research using the literature search method. The study found that the regulatory conformity of Islamic fintech and Islamic funds from an administrative perspective is comparable to the applicable regulations in Indonesia. The agreement between Dana Syariah Islamic fintech and peer-to-peer lending is in Indonesia. The agreement between Dana Syariah Islamic fintech and peer-to-peer lending is in accordance with sharia principles and the fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN MUI).

Keywords: Sharia principles, fintech, sharia funds

Introduction

With the presence of fintech, technological advances in the digital era are increasingly supporting the financing sector. Fintech is a technology-based financial service that facilitates transactions anytime and anywhere. Zopa, a British financial institution, introduced fintech in 2004, which then developed with the emergence of Bitcoin in 2008 by Satoshi Nakamoto (Muchlis, 2018).

Seeing the huge market potential among Muslims, fintech startups are capitalizing on the opportunity by developing sharia-based fintech. Sharia fintech has special rules, such as not containing elements of usury, gharar (fraud), mudhorat (negative impact), and jahalah (non-transparency). With the largest Muslim population in the world, the sharia fintech market in Indonesia is very potential. In addition, the advancement of mobile technology in Indonesia is a supporting factor that accelerates the development of this sector (Rusydiana, 2019).

Islamic fintech combines technological advances and Islamic financial principles to support transactions and investments. Although Islamic fintech is relatively new, it is growing rapidly as long as it does not violate sharia principles. Islamic fintech is based on the principle of An-Taradhim, which prioritizes blessings for both parties in the transaction (Yarli, 2018).

In Indonesia, sharia fintech has penetrated the peer- to-peer lending (P2P) and crowdfunding sectors. P2P lending functions as a platform that brings together lenders (investors) and loan recipients (borrowers). Sharia P2P lending ensures that the borrowers

selected are in accordance with sharia principles so that investors feel comfortable. Meanwhile, crowdfunding allows fundraising for projects or start-ups by applying sharia principles, avoiding interest or elements of usury in transactions, and implementing a profit-sharing system (Riadi, 2018).

Islamic fintech emphasizes business activities that comply with the terms and conditions of sharia, which is in line with the Prophet's hadith: "Negotiate between each other according to the terms, but do not include conditions that forbid the halal and legalize the haram" (HR. Abu Dawud and Tirmidzi). Research by Savitri et al. (2020) on the application of sharia principles to the Hasanah Card application at BNI Syariah shows that sharia principles must be followed in using sharia credit cards. This study analyzes the application of sharia funds at PT Dana Syariah Indonesia.

Literature Review

Theoretical study

1. Financing

Financing is often associated with commercial activities. Business is an activity that aims to create value through the provision of services, trade, or production of goods. Thus, business is an activity that develops in the economic sector, both in the service, commercial and industrial sectors, with the main objective of maximizing profits (Ilyas, 2015). Financing refers to funds provided by one party to another to support investment plans, both those carried out individually and through institutions (Ulpah & Ulpah, 2020).

The term financing can be interpreted as "trust". Financial institutions, such as Shahibul Maal, give trust to trusted individuals or entities to manage these funds properly and fairly, in accordance with mutually beneficial terms and conditions (Ismail, 2011). Financing based on sharia principles is the provision of funds based on an agreement between a bank and a company, in which the company receiving the financing is required to return the funds or replace them with an agreed form within a predetermined time, in accordance with Law Number 10 of 1998 (Ilyas, 2015).

2. Funding Principles

The Islamic economic system has significant differences compared to other economic systems. This difference is because the Islamic economy is based on sharia, which is the basis and guidance for every action of Muslims. The objectives of sharia (maqhasid ashshari'ah) and the strategies provided by Islam aim to achieve them. These objectives not only include improving human welfare and quality of life, but also emphasize the principles of fraternity and socio-economic justice, as well as a balance between material and spiritual satisfaction (Ulpah & Ulpah, 2020).

3. Types of Financing

Banking institutions serve as the core of a country's financial system. Banks are financial institutions that provide a place for individuals, companies, and government agencies to deposit funds. In addition, banks also provide credit services that meet various needs and facilitate payment transactions in all economic sectors. Types of financing in banks are usually divided into several categories, including:

a. Purpose-based financing. Financing at Islamic banks is divided into two types:

- 1) Working capital financing, which aims to increase capital for business development.
- 2) Investment financing, which is intended for capital investment or the acquisition of consumer goods (Fasiha, 2016).

b. Financing based on time period. Financing is also distinguished based on its duration, namely:

- 1) Short-term financing, with a period between 1 month and 1 year.
- 2) Medium-term financing, with a period between 1 year and 5 years.
- 3) Long-term financing, with a duration of more than 5 years (Ilyas, 2015).

4. Financing Function

Financing has a very vital role in the economy. In general, the functions of financing in the business, trade and financial sectors can be explained as follows:

- a) Financing can increase the benefits of capital for savers who save money in financial institutions. These funds will be more useful through financial institutions that provide financing for entrepreneurs to develop businesses, either to increase production, expand trade, restore business, or increase overall productivity.
- b) Financing can increase the usefulness of goods. With financing, producers can process raw materials into finished goods, so that the use value of these goods increases, for example, from coconut to copra, then to coconut oil or cooking oil.
- c) Financing increases money circulation and trade. Financing carried out through current accounts will accelerate the circulation of deposits and increase economic transactions.

5. Fintech

With the rapid development of internet-based businesses, the term Fintech is gaining popularity. In simple terms, Fintech refers to activities in the financial sector that utilize information technology to provide fast, accurate, and efficient services to the public/customers (Mulyana, 2019). Fintech is a combination of the words "finance" and "technology" in financial services (Barkatullah, 2006). In Indonesian, Fintech or financial technology is the application of digital technology to solve problems in the financial sector. According to the National Digital Research Center (NDRC) in Dublin, Ireland, Fintech is defined as "financial services innovation" that gives the financial sector a modern twist. Thus, Fintech refers to the use of digital technology to solve financial problems or to a sector consisting of companies that optimize technology to improve the efficiency of financial systems and services (Erna Santi et al., 2017).

In general, the fintech industry has several functions that include online financial transactions, electronic finance, virtual accounts, aggregators, lending, crowdfunding, and personal financial planning. Fintech also operates within the financial services sector such as payments, transfers, clearing, and settlement. This business is closely related to mobile payments that can be made through banks or non- bank financial institutions, as well as digital wallets. The main objective of this model is to increase financial inclusion, facilitate customer access to payment services, and ensure a smooth payment system (Krisnadi and Wibowo, 2016).

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Sharia Fintech is an integration of financial and technological innovation in the process of financial services and investments based on Islamic values. Although it is a relatively new innovation, the development of Sharia Fintech is quite rapid, with reference to Islamic principles as a guide in its application (Rahmawati et al., 2020).

Fintech offers various services and products that can be utilized by the community. Bank Indonesia classifies Fintech in four main types:

- a) Crowdfunding, which is the collection of funds for a particular project or company from many people through an online platform.
- b) Peer-to-peer lending, which brings together borrowers and lenders through a platform provided by the company.
- c) Market aggregator, which compares various financial products by collecting financial data for user reference.
- d) Risk and Investment management, which provides digital financial planning services to help users make plans according to their financial situation.
- e) Mobile payment/online banking, which includes financial transactions such as bill payments, money transfers, payment of purchases from digital merchants, as well as management of balance information and account transfers (Fadlan, 2012).

6. Shariah-compliant online financing

The management of information technology (Fintech) based loan and credit services with sharia principles offers various alternatives for users, both borrowers and lenders. The system provided is tailored to the needs of both parties, but remains within the sharia corridor and pays attention to the regulations set by regulators to ensure optimal service, as well as providing maximum protection and security for users. Start-ups in the sharia-based financing sector in the field of information technology (fintech) generally adopt principles such as Musyarakah, Murabahah, Qardh, and Wakalah bil Ujrah in every transaction carried out (Arafah, 2022).

Method

This research uses a qualitative approach by applying the literature review method. This approach aims to collect relevant materials through various reading sources, including books and academic works, both printed and electronic. Every researcher in literary studies is obsessed with finding solid foundations to build a theoretical framework, a framework of thought, and establish hypotheses.

This literature review gives the researcher the opportunity to collect, map, organize, and utilize various sources of information in the field. Through this process, researchers are expected to gain a more comprehensive and in-depth understanding of the problem under study. The literature review is conducted after the researcher determines the research topic and formulates the problem, before proceeding to data collection in the field. (Darmadi, 2011).

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Results and Discussion

Results

Dana Syariah (PT. Dana Syariah Indonesia)

Financial Technology (FinTech) in accordance with Bank Indonesia Regulation No. 19/12/PBI/2017 concerning the Implementation of Financial Technology, has a scope of financial activities which includes payment systems, market support, investment management, risk management, credit, financing, capital provision, and other financial services (Sulistiyani, 2019).

Dana Syariah Dansyariah. id is a sharia-based peer-to-peer financing company operating in Indonesia. The company has been authorized and supervised by the Financial Services Authority (OJK) with a primary focus on financing the real estate sector. The existence of a Sharia Supervisory Board proposed by the National Sharia Council of the Indonesian Ulema Council also adds to the legitimacy of this institution (<https://www.danasyariah.id/news>, 2022).

Dana Syariah's vision is to invite the community to participate in economic activities in accordance with Islamic law, in order to achieve a halal life and bring blessings in the future for the good of the world. The mission is to become a forum and center for Islamic economic activities that facilitate the community in carrying out economic activities in accordance with the principles of Islamic sharia.

Sharia Mutual Fund Products

Some of the products and services offered by Sharia Funds include:

- a. Construction Fund: Provides financing before the facility is completed, financing the sale of residential units, and financing the purchase and sale of houses.
- b. Rumah Dana: This service offers a simple solution for real estate financing through the sharia system.
- c. Zakat Service: Dana Syariah also provides services to assist members in calculating and distributing Zakat, making it easier to fulfill zakat obligations.

Sharia Principles in Sharia Funds

Islamic fintech must comply with several principles, as explained by Soemitra (2016):

- a. Principle of Justice ('adl): Ensuring that all aspects of the contract, returns, and profit sharing are explained transparently to create fairness. Sharia funds provide the necessary transparency, so that the recipient or borrower must consider the level of sharing of loan benefits and other costs, adjusted to their ability to make repayments
- b. Balance (Tawazun) or balance between material and spiritual aspects. It is important in achieving happiness in the world and the hereafter. For this reason, Dana Syariah provides Zakat management services, including the calculation, collection, and distribution of Zakat to every member who wants to contribute.
- c. Maslahah, which includes all forms of goodness in both worldly and ukhrawi life is also the main focus.
- d. The principle of universalism is applied here, without distinction of ethnicity, religion, race, or class, reflecting the spirit of grace given by nature.
- e. Sharia Funds are completely free from the elements of gharar, maysir, usury, zhulm, rishwah, or other haram activities.

The owners of funds in an Islamic Fund affirm that all funds used to finance projects do not originate from commercial activities that are contrary to Sharia principles or from illegal activities such as money laundering, terrorism, corruption, fraud, prostitution, and other unlawful commercial activities.

Discussion

Sharia Fund Management Agreement (PT. Dana Syariah)

Sharia Fintech funds involve fundraising activities through digital platforms such as websites for investment and social purposes. Lending and borrowing services between individuals (P2P) allow parties seeking loans to connect with lenders through digital technology. These services are generally managed through websites. In accordance with the Financial Services Authority Regulation No. 77/POJK. 01/2016, Article 36, the P2P lending and borrowing agreement implemented by Dana Syariah must follow the Standard Agreement regulated under statutory provisions.

In its implementation, Dana Syariah operates in accordance with Circular Letter No. 18/22/DKSP regarding the Provision of Digital Financial Services (LKD), which explains that digital financial services activities utilize mobile or web technology for payment services and financial systems, with the support of third parties in order to achieve inclusive financing. In addition to following OJK regulations, Dana Syariah also complies with the Fatwa of the National Sharia Council of the Indonesian Ulema Council No. 177/DSN-MUI/11/2018 concerning Information Technology-Based Financial Services based on sharia principles, which connects financial providers and recipients through electronic information systems.

Application of Sharia Funds in accordance with Sharia Principles

In the context of the Sharia Fund Application, it can be stated that the system used has fulfilled sharia principles in accordance with the MUI Fatwa. The use of Islamic fintech in business is fully in line with sharia principles which emphasize the importance of avoiding usury, gharar, maysir, dharar, and zhulm in all aspects of the transaction.

Based on the National Sharia Council of the Indonesian Ulema Council (DSN MUI) Fatwa No. 117 of 2018 on Information Technology-Based Financial Services based on sharia principles, an understanding of Sharia Funds as financial institutions committed to sharia is essential to increase trust and protection for all parties involved.

Research shows that Sharia Fintech is an innovative combination of finance and technology in the provision of financial services and investments based on Islamic values. Although classified as a new innovation, the development of Sharia Fintech has taken place rapidly. Several rules in Islam become a reference in determining the principles that must be followed.

Conclusion

In the context of the Dana Syariah application, it can be concluded that the system implemented by Fintech Syariah Dana Syariah is in accordance with the sharia principles stated in the MUI Fatwa. In the fatwa, it is stated that the Islamic fintech business will not be prohibited as long as it does not conflict with sharia principles. Some important principles that need to be considered include the avoidance of usury, gharar (unclear contracts), maysir (speculation with unclear objectives), dharar (harm), shulm (loss for one party), and haram financing.

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