

DIGITAL PAYMENT SYSTEMS AND CASHLESS ECONOMY: ISLAMIC PERSPECTIVE ON FINANCIAL INNOVATION

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Abstract: *This study examines digital payment systems and cashless economy development from an Islamic perspective on financial innovation. The purpose is to analyze how digital payment technologies align with Islamic financial principles and how Muslim users perceive their use in daily transactions. Using a qualitative approach, this research conducted in-depth interviews with Muslim consumers, Islamic finance practitioners, and academics, complemented by literature analysis on digital finance and Islamic economics. Findings indicate that digital payment systems offer significant benefits including transaction efficiency, convenience, transparency, and financial inclusion. From an Islamic perspective, digital payments are permissible when complying with Sharia principles such as avoiding riba, gharar, and unlawful transactions. Users perceive cashless systems as helpful tools simplifying financial activities while supporting ethical and accountable behavior. However, concerns remain regarding data security, consumer protection, and potential platform misuse. The study concludes that digital payment systems can support cashless economy growth within Islamic framework when supported by appropriate regulation, Sharia compliance, and financial literacy. Strengthening collaboration between regulators, Islamic financial institutions, and technology providers is essential for sustainable and ethical financial innovation. This research provides insights for policymakers and stakeholders in developing inclusive digital financial systems aligned with Islamic values.*

Keywords: *Digital Payment Systems, Cashless Economy, Islamic Finance, Sharia Compliance, Financial, Innovation*

Introduction

With the development of digital technology, many things have changed in human life, one of which is the emergence of the cashless society phenomenon, namely a society that conducts transactions without cash or uses digital transaction tools such as QRIS, mobile banking, and e-wallets, among others. This phenomenon has given rise to various statements regarding the legality of digital transactions from an Islamic perspective, particularly in the field of muamalah jurisprudence, as well as methods for teaching these laws to the Muslim community so that they can transact in a manner that is in accordance with Islamic law. With the development of increasingly sophisticated technology, the payment systems used for economic transactions have evolved rapidly. Money, a unit of value, or more commonly known as "cash," remains one of the primary means of payment in society to this day.

Cashless digital transactions, particularly those through e-commerce platforms, payment apps, and other digital services, occur very quickly and often without direct interaction between the seller and the buyer. The absence of a written or verbal consent (*ijab qabul*) in these transactions is a prominent feature. A consent (*ijab qabul*) is a statement of mutual agreement between the two parties to a transaction and is traditionally a crucial requirement for a transaction. In Islamic law, consent (*ijab qabul*) serves as the basis for a transaction to be considered legally valid. Various digital payment methods are increasingly developing in Indonesia, such as QRIS, digital bank transfers, virtual accounts, and fintech-based payment services. These systems make it easier for users to conduct cashless transactions, simply using a digital device like a smartphone. Digital payments have become an integral part of various financial activities, from purchases on e-commerce platforms to bill payments and other financial services.

However, behind the convenience offered, concerns have arisen among community regarding the suitability of digital payment methods with sharia principles. One frequently discussed issue is transparency in the fund transfer process and the potential for usury or *gharar*. Many people still doubt whether transactions using digital payments at merchants recognized as *halal* are still in accordance with Islamic law, or whether cash is preferable. This phenomenon demonstrates that despite the continued development of financial technology, compliance with Islamic law in the use of digital payments remains an issue that requires further consideration.

Literature review

The Islamic e-money fatwa emerged in response to the rapid development of financial technology and the growing use of electronic money in the modern world. The background to this fatwa reflects the need to ensure that financial transactions conducted through e-money comply with Islamic sharia (Musfirotin, 2020). Sharia compliance refers to the conformity of financial operations with the principles of Islamic law derived from the Qur'an, Hadith, *Ijma'*, and *Qiyas* (Zulva & Roisah, 2022). In Islamic financial institutions, sharia compliance encompasses not only product design but also business processes and governance practices. A key indicator of compliance is the involvement of the Sharia Supervisory Board (DPS), which ensures that all operations and transactions align with the DSN-MUI fatwa (Wicaksono, 2022). This holistic compliance model maintains both the formal legality and the substantive ethical dimensions of Islamic finance.

Method

This study uses a descriptive qualitative approach with the aim of understanding and analyzing digital payment systems and the development of a cashless economy from an Islamic perspective. This approach was chosen because it is able to describe social and financial phenomena in depth, particularly regarding the compatibility of digital financial innovations with sharia principles. The data sources in this study consist of primary and secondary data. Primary data were obtained through in-depth interviews with several informants, including Muslim users of digital payment systems, sharia finance practitioners, and academics familiar with Islamic economics. Meanwhile, secondary data were collected through literature studies from books, scientific journals, academic articles, fatwas from the National Sharia Council (DSN-MUI), and regulations related to digital payment systems and sharia finance. Data collection techniques were carried out through literature studies and interviews. The collected data were then analyzed using qualitative analysis methods, namely by grouping, interpreting, and linking the data to the concepts of *muamalah fiqh* (Islamic jurisprudence), the principles of *maqashid sharia*, and

Islamic legal provisions related to financial transactions. The results of the analysis are used to draw conclusions regarding the opportunities, challenges, and level of suitability of digital payment systems in supporting a cashless economy based on Islamic values.

Result and Discussion

Digital Payment Concept

Technological advances have made transactions easier. Previously, people paid with cash, but now they pay with non-cash methods. Digital payments, also known as electronic payments, are a transaction method that uses digital technology to store, process, and receive funds in the form of electronic data. Digital payments, also known as e-payments, are beginning to replace the use of these instruments. Every transfer of value is carried out through electronic systems. Central banks around the world continue to promote digital payments to stimulate economic growth because they are faster, easier, safer, and more efficient.

The idea of electronic money resurfaced in 1983, proposed by David Lee Chaum. He then followed it up by writing a paper on digital money. Over time, the concept of digital payments continued to evolve, with various variations emerging. In 1994, Stanford Federal Credit Union became the first to offer online banking services, becoming the only institution to do so at the time. In 1998, PayPal pioneered a wireless-based mobile payment system, followed by similar applications such as Apple Pay and Alipay. The success of these three platforms has fueled the growth and development of various forms of electronic money and digital payment methods in various countries, including Indonesia. In Indonesia, there are various well-known digital payment applications, such as Gopay, ShopeePay, OVO, LinkAja, and Dana, as well as mobile banking services provided by several banks.

Digital payment is a rapidly growing innovation in payment transactions and has become a trend among various segments of society. Digital payments offer numerous advantages, such as saving time, facilitating access, increasing user loyalty, and lowering administrative costs. However, they also have drawbacks, such as the potential for misuse, the risk of personal data leaks, dependence on internet connections, and vulnerability to application system disruptions. The presence of digital payments as a transaction service option in the digital era demonstrates technological advancements, particularly artificial intelligence, due to its ability to adapt to various aspects of life and people's needs, particularly in facilitating digital payment processes.

Implementation of Digital Payments in Islamic Finance

The implementation of digital payments in the Islamic financial system not only makes transaction processes faster and more efficient but also influences the way Muslims shop. The use of digital payments in Islamic finance generally aligns with the basic principles of muamalah (consumption of goods and services), namely, transactions that are fair, clear, and without prejudice to any party. Various studies have shown that Muslims tend to be more comfortable using digital payment methods because the process is fast, transparent, and free from usury (riba). These studies indicate that financial technology is well-received as long as transactions are conducted fairly, clearly, and without prejudice to any party. Digital payments are considered an efficient transaction tool while complying with the principles of halal (halal), as long as the process does not involve gharar (unlawful activity), maysir (unlawful activity), or usury (riba).

Furthermore, the implementation of digital payments in Islamic finance also helps increase Islamic financial inclusion. According to Salam's (2018) research, the digitalization of Islamic banking services, such as mobile banking and internet banking, has expanded access to financial services for people previously excluded from conventional banking services. This

demonstrates that digital innovation in Islamic finance not only improves transaction efficiency but also helps expand the reach of Islamic financial services to the wider community.

Digital Payment from an Islamic Law Perspective

The development of digital technology has transformed the way people conduct trade and financial affairs. In Islam, every trading activity must be based on the principles of honesty and responsibility. As explained by Nizar (2018), honest trade benefits all parties, while fraud leads to losses. The Quran also prohibits betrayal of trust, as seen in Surah Al-Anfal, verse 27, which reads :

يَا أَيُّهَا الَّذِينَ ءَامَنُوا لَا تَخُونُوا اللَّهَ وَالرَّسُولَ وَتَخُونُوا أَمْنَتِكُمْ وَأَنْتُمْ تَعْلَمُونَ ٢٧

Meaning: "O you who believe, do not betray Allah and His Messenger, and do not betray the trust given to you while you know."

This verse emphasizes that trust is a very important thing in every financial transaction, including in the use of digital payments. In response to the development of financial technology (fintech), Islamic law emphasizes the importance of conformity between contracts and the principles of maqashid sharia. In this approach, digital transactions must maintain fairness, avoid fraud, and ensure that no party is harmed. Therefore, legal analysis of fintech contracts, such as qard (lending) in GoPayLater or istijrah (renting) in modern sales models, is conducted using the maqasid sharia approach. This approach aims to enable Muslims to benefit from technological advances while adhering to established Islamic legal principles.

Following are some of the disadvantages of digital payment systems:

1. The emergence of criminal acts such as hacker crimes

If consumers don't comply with the security regulations, the risks increase, similar to those associated with robbery. The situation worsens when payment systems become compromised, as this can lead to personal data leaks. Furthermore, if electronic payment systems malfunction, this can impact user trust and confidence.

2. Not everyone has the same access to the internet

Remote areas and lack of digital infrastructure can be the reason why people do not have a stable and adequate internet connection.

3. Technology in Indonesia is still limited, and the prices are relatively expensive.

High taxes in Indonesia have drastically increased the price of technology, especially for increasingly sophisticated devices. Furthermore, the public's lack of technological knowledge is also a barrier. Many Indonesians still lack technological understanding due to a reluctance to learn or limited access to technological information.

4. Lack of anonymity in transactions.

All transaction information, such as amount, time, and recipient, is stored in the payment system's database. This means that intelligence agencies or third parties can access this information. This raises questions about whether this is beneficial or detrimental to user privacy.

5. Problems in transferring money between different payment systems

In general, most electronic payment systems are not compatible with each other. In this case, consumers have to use e-currency exchange services, and this process can be time-consuming if consumers do not have a trusted service for this purpose.

6. 6. Restrictions

Each payment system has limits on the maximum number of transactions per day as well as the amount of output that can be generated.

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Conclusion

Based on the discussion, it can be concluded that digital payment systems play a crucial role in supporting the development of a more efficient, practical, and transparent cashless economy. From an Islamic perspective, the use of digital payments is essentially permissible (halal) as long as they are free from elements of usury, gharar, maysir, and transactions prohibited by Sharia. Digital payments are considered capable of increasing transaction efficiency, Sharia financial inclusion, and facilitating access to financial services, particularly for the Muslim community. Furthermore, this system aligns with the principles of justice and trustworthiness in Islam when supported by transparency, clear contracts, and protection of user rights.

However, this study also identified challenges and risks, such as potential cybercrime, personal data breaches, limited access to technology, and low digital and Islamic financial literacy among some segments of society. Therefore, an active role is needed from regulators, Islamic financial institutions, and technology providers to ensure security, Sharia compliance, and ongoing public education. Overall, digital payment systems can be a means of financial innovation that supports the growth of a cashless economy within an Islamic framework, provided they are accompanied

by strong regulations, strict Sharia oversight, and increased financial literacy based on Islamic values.

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