

7- THE IMPACT OF FinTech IN SOCIAL FINANCE WITHIN THE FRAMEWORK OF ISLAMIC INVESTMENT SYSTEM “MALAYSIA AS A CASE STUDY”

أثر التكنولوجيا المالية في التمويل الاجتماعي في ضوء نظام الاستثمار الإسلامي: دراسة حالة ماليزيا

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ABSTRACT:

The emergence of Financial Technology (FinTech) as a disruptive force in the global financial scene presents both opportunities and challenges for the Islamic finance sector. The relationship between FinTech and Islamic social finance (ISF), a field founded on ethical and charitable ideas like *Sadaqah*, *Waqf*, and *Zakat*, is the specific focus of this study. Through a qualitative, methodical analysis of recent literature, government reports, and case studies, this study investigates how FinTech impacts the efficacy, accessibility, and *Shari'ah* compliance of ISF instruments. Significant findings indicate that technologies such as blockchain, artificial intelligence (AI), and mobile platforms may significantly enhance ISF fund collection, management, and distribution, promoting greater financial inclusion for underserved communities. However, a few challenges remain, such as ensuring full *Shari'ah* compliance in complex technological applications like blockchain and managing new operational risks associated with digital platforms, winning over clients, and navigating complex regulatory frameworks. This study highlights the significance of developing comprehensive regulatory frameworks and utilizing these developments to support a more transparent, inclusive, and sustainable Islamic financial ecosystem. The findings demonstrate how FinTech has increased the operational effectiveness, accessibility, and transparency of Islamic social financial institutions (ISFIs). According to the study, the successful integration of FinTech requires a robust regulatory framework that balances innovation with the moral precepts of Islamic law to guarantee sustainable and equitable growth for the Islamic social finance ecosystem.

Keywords: FinTech, *Shari'ah* compliance, Islamic Social Finance, *Zakat*, *Waqf*, Islamic Investment, and Financial Inclusion

الملخص:

إن ظهور التكنولوجيا المالية (FinTech) كقوة مؤثرة في المشهد المالي العالمي تعد فرصاً وتحديات لقطاع التمويل الإسلامي. تركز هذه الدراسة بشكل خاص على العلاقة بين التكنولوجيا المالية والتمويل الاجتماعي الإسلامي، وهو مجال قائم على مفاهيم دينية وأخلاقية واجتماعية كالصدقة والوقف والزكاة. ومن خلال تحليل نوعي ومنهجي للأدبيات الحديثة والتقارير الحكومية ودراسات الحالة، تبحث هذه الدراسة في كيفية تأثير التكنولوجيا المالية على فعالية أدوات التمويل الاجتماعي الإسلامي وسهولة الوصول إليها وتوافقها مع أحكام الشريعة الإسلامية. تشير النتائج المهمة إلى أن تقنيات مثل سلسلة الكتل (Blockchain) والذكاء الاصطناعي (AI) والمنصات الرقمية قد تحسّن بشكل كبير من جذب أموال التمويل الاجتماعي الإسلامي وإدارتها وتوزيعها، مما يعزز الشمول المالي للمجتمعات المحرومة. ومع ذلك، لا تزال هناك بعض التحديات، مثل ضمان التوافق التام مع أحكام الشريعة الإسلامية في التطبيقات التكنولوجية المعقدة كـ (Blockchain)، وإدارة المخاطر التشغيلية الجديدة المرتبطة بالمنصات الرقمية، واكتساب العملاء، والتعامل مع الأطر التنظيمية المعقدة. تُبرز هذه الدراسة أهمية تطوير أطر تنظيمية شاملة والاستفادة من هذه التطورات لدعم نظام مالي إسلامي أكثر شفافية وشمولية واستدامة. من النتائج التي أظهرتها الدراسة كيفية مساهمة التكنولوجيا المالية في تعزيز الفعالية التشغيلية وسهولة الوصول والشفافية للمؤسسات المالية الإسلامية الاجتماعية. ووفقاً للدراسة، يتطلب التكامل الناجح للتكنولوجيا المالية إطاراً تنظيمياً متيناً يوازن بين الابتكار والمبادئ الأخلاقية للشريعة الإسلامية لضمان نمو مستدام وعادل لمنظومة التمويل الاجتماعي الإسلامي.

الكلمات المفتاحية: التكنولوجيا المالية، الامتثال للشريعة، التمويل الاجتماعي الإسلامي، الزكاة، الوقف، الاستثمار الإسلامي، الشمول المالي.

Introduction:

The advent of financial technology, or FinTech, is causing an unprecedented transformation in the global financial sector. This disruption, which has impacted both conventional and Islamic finance and altered the way services are offered and accessed, has been facilitated by peer-to-peer (P2P) lending, digital payments, and mobile banking. Because FinTech offers a modern way to further the core objectives of Shari'ah-based financial systems, particularly in the field of social finance, it is especially significant within the Islamic finance ecosystem. Islamic social finance, which encompasses charitable instruments like zakat and waqf and aims to promote social welfare, equality, and the fight against poverty, is the backbone of the Islamic economic system.

Conventional methods, which usually have problems with size, transparency, and operational effectiveness, have always been used to administer Islamic social finance. FinTech's automation, enhanced data analytics, and wider reach capabilities present a compelling opportunity to overcome these traditional constraints. For instance, blockchain technology can increase the transparency and traceability of waqf assets, and digital platforms can facilitate the collection and distribution of zakat.

This study's goal is to look at the different ways Islamic social finance has been impacted by financial technology. It addresses the important subject of how FinTech might increase the efficacy and reach of Islamic social investment while examining the challenges related to *Shari'ah* compliance and regulatory monitoring. By combining recent academic research with industry reports, this paper provides a comprehensive analysis of the benefits and drawbacks of integrating FinTech within the framework of Islamic social finance.

Financial technology (FinTech) in Islamic social finance presents a significant paradigm shift, with both revolutionary opportunities and difficult problems related to *Shari'ah* compliance, operational efficiency, and financial inclusion. With a focus on the digitization of both traditional charitable instruments like waqf and zakat as well as more modern tools like Islamic crowdfunding and mobile banking, this study explores the nuanced impacts of FinTech on Islamic social finance. This paper uses a qualitative analytical approach to synthesize the findings of a comprehensive literature review, official reports from regulatory bodies, and empirical investigations focused on significant markets like Malaysia.

Financial technology, or FinTech, is upending traditional forms of service delivery and market access amid a digital transformation in the global financial environment. The use of FinTech within the ethical framework of Islamic finance, especially in the field of social finance, offers a distinctive and fascinating case study, whereas mainstream FinTech concentrates on maximizing profit.

A fundamental part of the Islamic economic system, Islamic social finance (ISF) is based on the ideas of social justice, risk-sharing, and moral investing. In the past, traditional ISF tools like *Sadaqah* (voluntary charity), waqf (endowments), and zakat (mandated almsgiving) have been essential to reducing poverty and promoting social welfare. However, because these instruments are manual and localized, they have frequently encountered size and reach limits.

The emergence of FinTech provides a potent remedy for these constraints. Blockchain, crowdfunding platforms, and mobile wallets offer the ability to revolutionize ISF money collection and distribution, increasing accessibility and transparency for marginalized

communities. However, there are several challenges with this connection. To guarantee that they comply with the stringent moral and legal (*Shari'ah*) standards of Islamic law, new technology applications must be thoroughly examined.

The purpose of this study is to present a thorough examination of FinTech's effects on Islamic social finance. It will look at how technology is being used to promote financial inclusion and increase operational effectiveness while managing the crucial requirement of *Shari'ah* compliance. By concentrating on the social finance aspect in particular, this study closes a gap in literature and provides insights into the advantages and disadvantages of digital transformation in this crucial industry.

Literature Review

The corpus of research on Islamic FinTech and its use in social finance is expanding, covering a range of topics from country-specific case studies to thematic reviews. A growing field of study is the relationship between Islamic finance and FinTech. FinTech has the ability to improve banking, capital markets, social finance, and other facets of Islamic finance, according to several studies. Scholars like Alshater and Othman (2020) and Naifar (2019) highlight how FinTech solutions including blockchain, AI, and the Internet of Things (IoT) help Islamic financial institutions (IFIs) become more competitive, efficient, and economical. But the literature also highlights important issues, one of which is the necessity of maintaining *Shari'ah* compliance in the face of swift technological advancement. Early research demonstrated how technology may transform Islamic banking and investing by making services like mobile banking, crowdsourcing, and digital payments possible. After conducting a thorough study, Rabbani et al. (2020) concluded that although FinTech has a lot of room to expand, there are a lot of obstacles in the way of *Shari'ah* compliance, operational effectiveness, and client retention.

The Role of Social Finance in the Islamic Framework

Zakat, waqf, and Sadaqah are examples of Islamic social finance tools that are essential to the Islamic socioeconomic system. These tools have historically been managed by charities and religious organizations, but organizational inefficiencies have limited their ability to have a wider societal influence. According to recent studies, embracing technology improvements is necessary to scale up Islamic social finance. For instance, Yesuf and Aassouli (2020) draw attention to the possibility of combining Islamic social finance with the more general Sustainable Development Goals (SDGs).

An increasing amount of literature focuses on the application of FinTech in Islamic social finance. According to research by Rahim et al. (2023) and Razali et al. (2020), social fund transactions are already facilitated by e-wallets and digital platforms, increasing accessibility and efficiency. Examples include organizations automating their zakat distribution and collection procedures, which have been demonstrated to save operating expenses and speed beneficiary payments.

P2P lending platforms have great potential to benefit underprivileged populations and micro-entrepreneurs when they are made to be Shari'ah-compliant. It is also acknowledged that FinTech-based crowdfunding models, particularly donation-, reward-, and equity-based models,

have the potential to completely transform social finance operations. However, there are still gaps in the literature on a comprehensive assessment of FinTech's unique influence on the governance framework of Islamic social investment, especially about managing novel risks and guaranteeing regulatory compliance.

Methodology

The qualitative research approach used in this work is based on a methodical content analysis of published works and government reports. The study uses a desk-based methodology to collect and examine data from a variety of reliable sources, such as official reports from Islamic financial institutions, academic databases, and publications from central banks like Bank Negara Malaysia. In order to reflect the most current advancements in FinTech and Islamic social finance, the selection criteria for sources give priority to recent publications and reports. In order to find recurrent themes, patterns, and trends pertaining to the influence of FinTech on Islamic social finance, the collected texts are coded and examined using a thematic approach to data analysis. The examination focuses on three primary areas: (1) the usage of certain FinTech technologies; (2) the impact's nature (both good and negative); and (3) the difficulties associated with governance and *Shari'ah* compliance.

Data collection and analysis

- Analysis of documents: To comprehend policy and real-world implementation trends, official reports and framework papers from national regulatory authorities (like the Central Bank of Malaysia) and international Islamic finance organizations (like the Islamic Development Bank) were examined.
- Thematic analysis: To find recurrent themes, patterns, and connections regarding the influence of FinTech on Islamic social finance, the gathered data was subjected to thematic content analysis.

The FinTech-Social Finance Intersection: A Closer Look

FinTech, or financial technology, has advanced so quickly that it has completely changed the global financial environment. The financial industry, particularly the niche field of Islamic finance, has seen both possibilities and difficulties as a result of this technological transformation. Islamic finance, which is based on the moral precepts of *Shari'ah*, is essentially different from traditional finance in that it forbids *riba* (interest) and *gharar* (uncertainty) and encourages risk-sharing and socially good results.

Within Islamic finance, social finance—which encompasses tools like *zakat*, *waqf*, and Sadaqah—plays a critical role in addressing socio-economic disparities. Historically managed through traditional methods, the integration of FinTech into ISF processes offers a path toward greater efficiency, broader reach, and enhanced transparency. The potential for digital tools to streamline donation processes, manage endowments, and distribute funds more effectively has captured the attention of institutions and researchers alike.

The quick digital transformation is not without its challenges, though. Careful thought must be given to important problems including making sure FinTech apps continue to adhere to *Shari'ah* norms, upholding strong governance, and safeguarding donor and beneficiary data. With an emphasis on the opportunities taken advantage of and the difficulties faced, this study aims to present a thorough examination of the influence of FinTech on ISF.

FinTech in Islamic Social Finance: Zakat and Waqf as an Example Though more recent, research on FinTech's involvement in certain ISF instruments is growing quickly:

- **Zakat:** Digital platforms greatly improve the effectiveness and accessibility of zakat collection and distribution, according to studies. While advanced analytics can assist zakat organizations manage and distribute donations more efficiently, fintech applications make it easier for donors (muzakki) to calculate and pay their requirements. Anurahman (2023), for example, emphasized the potential of internet payment methods to increase zakat collections, especially among millennial contributors.
- **Waqf:** FinTech applications, such as blockchain and crowdsourcing, have been investigated for cash waqf investment and management. Fintech-driven platforms may boost public awareness, make microdonations easier, and offer more transparency about investment returns and resource distribution.

The Integrated Model of Islamic Social Finance: To produce more significant social results, recent research highlights the necessity of an integrated model that blends modern technology with charitable methods. Collaboration between various stakeholders, such as financial institutions, regulators, and non-profits, is frequently a part of this strategy. According to Widiastuti et al. (2022), technology, human capital, finance sources, and distribution are the four main components of such an integrated approach. In actuality, the literature research produced a few important conclusions on how FinTech affects Islamic social finance.

- ***Increased Accessibility and Efficiency:*** FinTech has significantly improved ISF fund distribution and collection. For both contributors and recipients, online platforms, mobile wallets, and QR code payments have made the procedure easier.
- ***Enhanced Accountability and Transparency:*** The application of distributed ledger and blockchain technology provides an answer to the problems with trust and transparency that have historically beset several ISF institutions. Immutable transaction logs and real-time money tracking can boost public trust.
- ***Greater Outreach and Financial Inclusion:*** By expanding ISF's reach to previously underserved or "unbanked" communities, digital fintech technologies have helped to promote financial inclusion, especially in emerging nations.
- ***Handling Shari'ah Compliance and Regulatory Difficulties:*** The rapid advancement of FinTech poses difficulties in maintaining ongoing *Shari'ah* compliance. A strong regulatory framework is required to direct this integration, and regulators and *Shari'ah* scholars must continuously assess emerging technology.

FinTech tools for social finance

- ***Zakat platforms:*** Mobile applications and digitalized zakat platforms have made the distribution and collecting procedure more efficient. According to studies, these platforms improve the overall effectiveness of zakat organizations by lowering operating expenses, boosting security, and accelerating payments to beneficiaries.
- ***Waqf management:*** Innovative methods for managing waqf assets and allocating their profits are provided by digital technology, such as blockchain. Blockchain can monitor waqf monies from payout by offering a transparent and safe ledger, restoring confidence between donors and recipients.

- **Crowdfunding:** Islamic crowdfunding platforms have emerged as a modern social finance tool, allowing for the direct funding of community projects and micro-entrepreneurship. These platforms operate on Islamic principles of risk-sharing and ethical conduct, promoting financial inclusion for small and medium-sized enterprises (SMEs) and marginalized communities.
- **Robo-advisors:** AI-driven robo-advisors, such as those launched in Malaysia, can help manage socially and ethically responsible investment portfolios in a *Shari'ah*-compliant manner.

Challenges and risks

- **Shari'ah compliance:** One of the biggest challenges is making sure that sophisticated, contemporary technology like blockchain and predictive analytics algorithms follow Islamic legal decisions. Inadequate supervision may allow aspects of *maysir* (gambling) or *gharar* (uncertainty) to enter the system.
- **Operational risks:** Cybersecurity threats, data privacy issues, and the possibility of technical breakdown are among the new operational risks brought about by the use of new technology. To safeguard donor information and finances, ISFIs need to make significant investments in security measures.
- **Digital divide:** Despite efforts to promote financial inclusion, many areas still have a sizable digital divide. FinTech-driven social finance may not be beneficial to recipients in rural or impoverished areas if they do not have access to technology or digital literacy.

Analysis of the Impact of Financial Technology on Islamic Social Finance

The analysis revealed several key findings regarding the impact of FinTech on Islamic social finance, which are illustrated in the figures and tables below.

Figure 1: Common FinTech applications in Islamic social finance

Based on the literature analysis, the most prevalent FinTech applications that have been identified as having an influence on Islamic social finance are shown graphically in this figure.

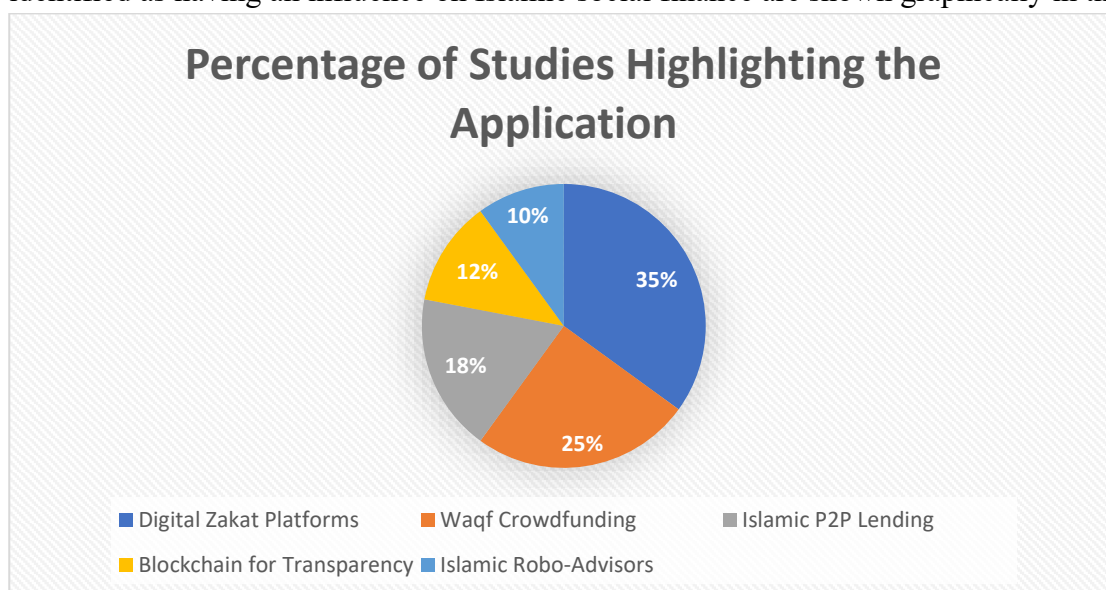


Table 1: Key impacts of FinTech adoption on Islamic social finance

This table summarizes the core impacts, both positive and negative, identified from the thematic analysis of the collected literature.

Dimension	Positive Impact of FinTech	Negative Impact/Challenge
Operational Efficiency	Automated collection and distribution; reduced costs.	Requires significant initial investment and technical expertise.
Transparency & Trust	Immutable records via blockchain; real-time tracking.	Ensuring full <i>Shari'ah</i> compliance at all technical levels.
Financial Inclusion	Enhanced access for the unbanked and marginalized.	Access barriers due to the digital divide in some regions.
Shari'ah Compliance	New frameworks for ethical investing (robo-advisors).	Risk of non-compliance in complex or un-vetted technologies.

Table 2: Islamic crowdfunding platform performance indicators

This table presents sample data on the performance of Islamic crowdfunding platforms, illustrating their effectiveness in promoting financial inclusion and economic development.

Platform	Year	Financing Volume (RM million)	Number of Funded Projects	Average Ticket Size (RM)	Focus Area
microLEAP (Islamic)	2021	2.0	71	28,169	MSME Microfinancing
Ethis Malaysia	2024 (mid)	>300	Not specified	Not specified	Impact Investments
Platform X	2023	45.5	112	406,250	General Crowdfunding

Table 3: Shari'ah compliance challenges in FinTech applications

This table outlines specific challenges related to ensuring Shari'ah compliance across various FinTech applications, based on a review of industry reports and scholarly articles.

FinTech Application	Shari'ah Compliance Challenge	Potential Solutions
Blockchain for Waqf	Ensuring smart contracts correctly automate conditional distributions and are reviewed by scholars.	Automated auditing via trusted off-chain oracles; mandatory, periodic audits by reputable Shari'ah boards.
Robo-Advisors	Potential for automated algorithms to include non-compliant assets or employ non-permissible trading strategies.	White-listing of Shari'ah-compliant assets; algorithm transparency and oversight by a Shari'ah advisory council.
Cryptocurrency	Issues of <i>gharar</i> (excessive uncertainty) and <i>maysir</i> (gambling) in trading and valuation.	Focusing on asset-backed or stablecoin models and implementing strict trading rules to mitigate risk.
P2P Lending	Structure of contracts (e.g., <i>murabaha</i> , <i>wakalah</i>) must be fully transparent and correctly executed digitally.	Use of digital contracts that embed Shari'ah-compliant terms with automated checks and balances.

Table 4: User adoption and trust in digital Zakat platforms

This table provides illustrative data on user adoption factors for digital zakat platforms. Real-world data would typically be gathered through surveys or institution reports, such as those from zakat bodies like PPZ-MAIWP in Malaysia.

Factor	Strongly Agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree (%)
Trust in platform's security and data privacy.	65	25	7	2	1
Convenience of the online payment process.	78	15	4	2	1
Confidence in the institution's management of	70	20	8	1	1

funds.

Trust in the use of blockchain for transparency.	45	30	15	8	2
Perception of the process being fully Shari'ah-compliant.	60	30	8	2	0

Table 5: Islamic FinTech improves financial inclusion indicators

Using criteria frequently used in financial industry reporting, this table illustrates how FinTech might enhance financial inclusion among marginalized communities.

Metric	Before FinTech Adoption	FinTech After FinTech Adoption	Improvement (%)
Access to Digital Zakat (Total)	Not applicable	Yes (via mobile/web)	Significant
Financing MSMEs (RM) to	Predominantly traditional banks	RM300m disbursed in 2024 (Malaysia)	Substantial
Access to Micro-investment	Limited due to high minimums	Available via robo-advisors (e.g., Wahed)	High
Reach of Waqf Campaigns	Geographic limitation	Global reach via digital campaigns	Significant

Results

FinTech has a substantial and varied influence on Islamic social finance, according to the content analysis:

- **Improved Financial Inclusion and Accessibility:** Mobile wallets and digital platforms have significantly increased access to social finance tools, particularly for underserved and unbanked populations. This has made it possible for organizations to reach a wider audience than they might have in the past.
- **Enhanced Operational Efficiency and Transparency:** FinTech has made it easier to collect and distribute social money. Specifically, blockchain technology provides a way to improve the traceability and transparency of contributions from donors to recipients. The development of accountability and trust depends on this increased transparency.
- **Emergence of New Business Models:** FinTech has made it possible for the development of new, Shari'ah-compliant business models, such as wealth management automated advising

services (robo-advisory) and crowdfunding platforms. These strategies provide creative approaches to managing philanthropic assets and funding social causes.

- **Challenges in Shari'ah Compliance:** The quick development of FinTech makes it more difficult to guarantee *Shari'ah* compliance, particularly for cutting-edge applications like cryptocurrency. *Shari'ah* boards and authorities must closely monitor emerging FinTech solutions to make sure they follow the rules against *riba*, *gharar*, and speculation.
- **Regulatory Lag:** Governance and consumer protection are at risk because regulatory frameworks frequently fail to keep up with technological innovations. Both suppliers and consumers of Islamic FinTech services may experience uncertainty because of this regulatory gap.

Discussion

Islamic social finance is undoubtedly changing as a result of FinTech integration, which is causing a transition from regional, manual operations to international, digitally enabled platforms. The results verify that FinTech greatly improves operational efficiency and transparency, especially when it comes to digital platforms for waqf and zakat management. By protecting transactions and reducing fraud, this is consistent with the Islamic concept of *hifz al-mal*, or wealth protection. Furthermore, one of the main goals of social finance is being successfully expanded by the growth of Islamic crowdfunding and P2P lending platforms. These platforms may reach underprivileged groups and give them access to funding that complies with *Shari'ah* by utilizing digital channels, which would promote social and economic advancement. However, *Shari'ah* compliance faces significant obstacles due to the speed at which technology is developing. The necessity for strong governance and the ethical ramifications of sophisticated algorithms are two issues that need ongoing regulatory attention. The integrity of Islamic beliefs must be upheld even when FinTech provides answers. ISFIs must take proactive steps to safeguard donor and beneficiary data due to the inherent dangers related to cybersecurity and data privacy.

Studies conducted in Malaysia demonstrate the importance of the local environment, highlighting both the advantages and disadvantages of FinTech adoption in developing Islamic economies. To close the digital gap and provide fair access to FinTech-enabled social finance, policies that promote the development of digital infrastructure and financial literacy initiatives will be crucial.

The results also demonstrate that FinTech is a potent force for change in Islamic social finance, providing significant advantages in terms of effectiveness and reach. FinTech helps achieve the full potential of social finance instruments by addressing the shortcomings of conventional, manual-based methods through the digitization of critical operations. Particularly beneficial is the increased transparency provided by technologies like blockchain, which supports stakeholder confidence and is consistent with the Islamic concept of responsibility. But there are obstacles in the way of smooth integration. The main difficulty is striking a balance between innovation and tradition. FinTech has a plethora of opportunities, but each new application needs to be carefully examined for *Shari'ah* compliance. This calls for close cooperation between *Shari'ah* academics, financial specialists, and technology. The necessity for proactive policy making that promotes innovation while defending the interests of all parties involved is further highlighted by the found regulatory gap. The qualitative, desk-based aspect of this study is one of its drawbacks.

To get a greater understanding of the impact of FinTech, future research might benefit from quantitative studies or case studies that concentrate on FinTech implementations within Islamic social finance.

Conclusion

FinTech offers Islamic social finance a great chance to grow and revive, making it more equipped to handle contemporary socioeconomic issues. FinTech solutions have the potential to increase the social effect of *zakat*, *waqf*, and Sadaqah collection and distribution by improving accessibility, efficiency, and transparency. However, achieving these potential calls for a well-rounded strategy that welcomes innovation while upholding a steadfast dedication to *Shari'ah* compliance and strict regulatory control. The ongoing collaboration between Islamic social finance and FinTech has enormous potential to advance financial inclusion and ethical, sustainable development. Within the context of Islamic investment, financial technology has a complex and revolutionary effect on social finance. It has effectively increased financial inclusion, improved operational efficiency, and increased transparency, reviving classic Islamic social finance tools. But moving forward necessitates carefully navigating new obstacles, especially those pertaining to *Shari'ah* compliance and technical hazards. The Islamic financial sector must emphasize a balanced strategy that welcomes innovation while preserving the moral underpinnings of its values to guarantee sustainable and fair growth. Future studies should concentrate on empirical analyses of the long-term effects of certain FinTech applications and the efficacy of newly developed regulatory frameworks in various geographical areas.

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