Chapter 9

Fintech and *Shariah* Principles in Smart Contracts

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**ABSTRACT**

FinTech, or financial technology, is an emerging technology in financial transaction. It is disruptive technology which is changing the banking behavior for stakeholders. The thriving emergence of FinTech not only affects the conventional finance industry but also Islamic finance industry, as Islamic finance sector is also embracing FinTech as part of financial revolution. Thus, the Islamic FinTech emerges as faith-based FinTech. This is because Islamic FinTech claimed to comply with Shariah principle in their mechanism and smart contract. There is limited discussion on smart contract and Islamic FinTech and its Shariah principles. Hence, the Shariah principle in smart contract of Islamic FinTech need to be addressed. This chapter tries to delve into the smart contract concept in Islamic FinTech and Shariah principles in the mechanism. The review found that smart contract is currently in the early stage and so is Islamic FinTech. The scholars agreed that FinTech is a Maslahah (interest) to mankind’s benefit. However, the smart contract is still in discussion and review.

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INTRODUCTION

Fintech is defined as financial technology. As the financial industry moving toward modernism and globalization, technology is inevitable. The technology in finance has changing the banking behaviour of stakeholders in doing financial transaction. Financial technology has started with the evolution of Internet since 1990s which it implicates the lower cost of doing transaction (Lee and Shin, 2018). The emergence of internet and smart phone has accelerated the banking process and expedite the financial transaction. This change has evolved into new whole industry from traditional banking of brick-and-mortar to the new system in doing financial transaction called Fintech. Hence, it is considered disruptive technology, which means disrupt or complete changes the way to do things. This also means, consumer will no longer go to traditional banks to do their financial matters, rather they do it by apps and mobile. According to Lee (2017), Fintech is divided into two-traditional and emergent Fintech. Traditional Fintech is market players serve as facilitators, while emergent Fintech is rather a disruptor to the existing market. The first is considered to facilitate and supporting the existing financial industry, while the latter is deemed as innovator to the industry. Zovolokina, Dolata and Schwabe (2016) mentioned that Fintech is not a phenomena affecting entrepreneur, rather it is influenced by the combination of economic, technological factor and regulation.

The market of Fintech is lucratively attractive and potential for handsome profit. Surendra (2017) reported that estimation of investment in Fintech globally reaching up to USD 40 billion. Although it is reported that the users of Fintech globally is still small, as it is now in nascent stage, the report from Ernst & Young (2016) has shows that the growth rate of adoption is fast up to three times. Currently, the adoption index of Fintech globally is 15.5 percent and it is estimated can be tripled within a year, provided there are awareness on the adoption. This is quite fast compared to the report in 2016 by International Trade Administration (ITA) from US Department of Commerce which stated that the adoption rate can double within a year (ITA, 2016). In Indonesia, the transaction value via Fintech in 2016 is worth RPI 199 trillion (Dwi Marlina & Alex, 2017). In the case of Malaysia, Fintech in Malaysia is still in infancy stage but growing rapidly. Securities Commission (SC) is the first fintech regulator in ASEAN. SC has amended the Guidelines for Recognized Market, as part of regulatory framework for P2P lending, allowing small and medium-sized companies access for debt funding (Surendra, 2017). Minister of Finance II (year 2016-2018), Dato’ Seri Johari Abdul Ghani has mentioned in Malaysia Fintech Expo 2018 that government of Malaysia will guarante the condusive economic environment to support the Fintech industry to ensure no glitch in the digital business (Hazwan Faisal, 2018). He also reporting that digital economy has contribute to the
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