

Financial Technology (FinTech) Services: Analysis from The Perspective of *Maqasid Al-Shariah*

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Abstract: Financial Technology (FinTech) is a technology that continues to grow from the past hundreds of years until today. As today technology is driven by the development of the Industrial Revolution 4.0, it offers the advancement of FinTech services. FinTech services is a financial service that makes financial transactions can be done faster, as well as it saves time and costs. FinTech services are the future of financial transactions worldwide, where financial transactions can be carried out without the need for physical money by using the Internet of Things (IoT) application. As such, FinTech services will revolutionize the landscape and the way people transact with one another. This situation will give an impact on public interest (*Maslahah*) of human life around the world. However, for the Muslims, besides accepting the advancement to be used, they are also should consider on the permissible (halal) or prohibited (haram) from the perspective of *Maqasid Al-Shariah* (Objective of *Shariah*). Hence, this study has been focused on financial technology services according to preservation of religion (*deen*), life (*nafs*), intellect (*al-'aql*), progeny (*nasl*) and wealth (*maal*) which are necessities (*daruriyyah*) from the *Maqasid al-Shariah* perspective.

Key words: *FinTech, Industry 4.0, Maqasid al-Shari'ah, Islamic Financial Institutions*

INTRODUCTION

Technological advancement has changed the landscape of communication between banks and users. Financial institutions whether conventional financial institutions or Islamic Financial Institutions (IFIs) are not left behind to use the latest technologies in facilitating the affairs of institutions with customers [1]. With the ease of technology, IFIs not only facilitate the consumers to but also help them to expand their business faster.

Since the existence of Financial Technology (FinTech), it changes the services of banking and financial institutions to be done faster. There are several definitions of FinTech. According to [2]:

Definition	Source	Year
“Financial technology” or “FinTech” refers to technology-enabled financial solutions. The	Arner, DW; Barberis, JN; Buckley, RP	2015

term FinTech is not confined to specific sectors (e.g. financing) or business models (e.g. peer-to-peer (P2P) lending), but instead covers the entire scope of services and products traditionally provided by the financial services industry.

Financial innovation can be defined as the act of creating and then popularizing new financial instruments as well as new financial technologies, institutions and markets. It includes institutional, product and process innovation.

Farha Hussain 2015

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Fintech is a service sector, which uses mobile-centered IT technology to enhance the efficiency of the financial system. An economic industry composed of companies that use technology to make financial systems more efficient.	Kim, Y., Park, Y. J., & Choi, J.	2016
An economic industry composed of companies that use technology to make financial systems more efficient.	McAuley, D	2015
Fintech is a portmanteau of financial technology that describes an emerging financial services sector in the 21st century.	Investopedia	2016
FinTech describes a business that aims at providing financial services by making use of software and modern technology.	Fintech weekly	2016
Organizations combining innovative business models and technology to enable, enhance and disrupt financial services	Ernst & Young	2016

Today, there are already numbers of FinTech companies that help consumers to choose and purchase financial products such as bank loans, credit cards and insurance through comparison concepts. In previous time users need to go to financial institutions or must read their own information to find out more about bank or insurance products, currently with the existence of this FinTech company and start-ups services, consumers can make quick comparison and can even purchase for banking products or insurance products directly from the financial institutions.

According to Fintech Malaysia Report 2017 [3] & Fintech Malaysia Report 2018 [4], shows that the FinTech companies and start-ups served the people in many segments. The two largest services offered by

FinTech companies and start-up in Malaysia is Payments and Wallet where there has been an increase for Payments from 18% to 19% and Wallet from 12% to 17%. This shows that these two facilities currently dominating the FinTech services to make users easy to make payments.

All services from FinTech services are to facilitate bank customer's transactions to make various financial matters by using the internet and online facility. This coincides with the expectation of Bank Negara Malaysia to make Malaysia into a cashless society in the medium term (Bank Negara Malaysia, 2018) and Malaysia is planning to implement a virtual bank [5].

EVOLUTION OF FINTECH

Evolution of FinTech has begun for so long and continues to grow. Arner, Barberis and Buckley states that FinTech has three phases up to the current phase of today [6].

<i>Phase</i>	<i>Year</i>	<i>Achievement</i>
<i>FinTech 1.0</i>	1866-1987	The physical foundations of modern telecommunication infrastructure were laid down across the globe (including important milestones, such as the installation of transatlantic transmission cables). This stage was necessary in terms of the establishment of correspondent banking and increasing the global interconnectivity of financial institutions. This infrastructure is still in use by banks who seek to provide reliable services to their customers. Without this investment into infrastructure, the fertile ground for the current phase of current innovation would not exist.
<i>FinTech 2.0</i>	1987-2008	The traditional financial

sector was developed. Banks became increasingly digitized and built significant IT infrastructure to support their operations, while ATMs and other innovative financial products and services were created. Central clearing houses, stock exchanges and international correspondent banking became widespread, and regulatory standards were drawn up. Fintech 2.0 was the birth of modern banking with its branch-focused business models that are used today by many banks.

Fintech 3.0

2008-

The current stage is ongoing and involves both newly emerging technology-enabled financial service companies and traditional banking institutions. Meanwhile, although new fintech startups may be the cradle of new financial technologies, there is no reason to excoriate traditional financial service institutions.

reflection of a continued lack of consumer trust in financial services newcomers: 27% of respondents said that a main barrier to using such services is concern about the security of their capital, and 18% said the protection of their personal details is a worry (The Telegraph, 2017) [9].

Figure below are the current FinTech segments in Malaysia and the number of approved start-ups/companies:

No	Segment	Number of Start-Ups/Companies
1	Payments	30
2	Wallets	28
3	Cryptocurrencies	21
4	Crowdfunding	8
5	Wealth/Investment	7
6	Blockchain	7
7	Lending	10
8	Insurtech	9
9	Comparison Sites	21
10	Marketplace	2
11	Islamic Fintech	3
12	Data/Artificial Intelligence	4
13	Remittance	10
14	Currency Exchange	3
15	Personal Finance	3

Figure 1.1 : List of FinTech Segments and Number of Players Source: [10]

The existences of FinTech increase the number of players in the banking and finance markets. The existing traditional players in the banking and financial markets should not worry about the existence of FinTech because as FinTech is not about to kill traditional players [7]. However, traditional players will see a decline in the services they offer as prospective new customers are the generation of internet savvy. Despite the existence of FinTech services, it will continue to grow as consumers will enjoy more competitive financial services cost and the potential disruptions to traditional Islamic finance should not be underestimated [8].

A survey conducted by The Telegraph found that only 10% of respondents are currently using a FinTech services. This is probably a

THE OBJECTIVES OF SHARI’AH (MAQASID AL-SHARI’AH)

The fundamental objectives of the *Shari’ah* or *maqasid al-Shari’ah* are to ensure the well-being and welfare of mankind (*maslahah*; Pl. *masalih*), both in this world and the hereafter. *Maqasid* are the key to better understand the *Shari’ah* in its true perspective. Imam al-Ghazali (d. 505 AH/1111 AC) defined *maqasid* by stressing that the *Shari’ah* concerns with preservation of five objectives: “The main objective of the *Shari’ah* is to promote the public interest and the well-being of

the people, which lies in preservation of their religion (*din*), their life (*nafs*), their intellect (*'aql*), their progeny (*nasl*) and their wealth (*mal*). Whatever ensures and covers the safeguarding of these five origins, and it is a public interest, and whatever leaves these five's, it is a harm and against public interest" [11]. Therefore, the *maqasid al-Shari'ah* are the law's meanings and objectives as manifested in most or all of its rulings, or they may be said to be the objectives of the *Shari'ah* and the hidden wisdom which the Lawgiver has placed within each of its rulings.

It is generally held that the *Shari'ah* in all of its parts aims of seeking a benefit for the people or protecting them against corruption and evil. For example, the Qur'an explained the main objective of the Prophethood of Muhammad is a mercy (*rahmah*) for the mankind (*'alamin*) (The Qur'an, 21:107). Elsewhere, Allah (swt) describes His purpose in the revelation of religion is not a means of imposing hardship, as He says: "God never intends to impose hardship upon people" (The Qur'an, 5:6; 22:78). Here the Lawgiver wishes to make things easy and to avoid imposing hardships on people and thus not obligate anyone more than his or her capacity, which Allah (swt) says: "No one is charged with more than his capacity" (The Qur'an, 2: 233). In principle, the main objective of *Maqasid* is seeking of benefit (*manfa'ah*) and to repelling of harm (*madarrah*) for the public interest (*maslahah*) as directed by the Lawgiver. Examples are seeking and preserving of public welfare, justice, fairness, human brotherhood and equally, in order to bring happiness to human beings.

The interpretation of *Maqasid* should be based on three essential objectives, namely necessities objectives (*maqasid daruriyyah*), needs objectives (*maqasid hajiyyah*) and embellishments objectives (*maqasid tahsiniyyah*). From the objectives on necessities, it should be for the preservation on five necessities (*daruriyyah al-khamsah*), namely, the preservation of religion (*din*), the preservation of life (*nafs*), the preservation of intellect (*'aql*), the preservation of progeny (*nasl*) and the preservation of wealth (*mal*). These preservations include the preservation of the essential objectives of this world and in the hereafter.

FINANCIAL TECHNOLOGY (FINTECH) AND MAQASID SHARIAH

Basically, the use of financial technology (fintech) is considered as permissible (*mubah*) in Islam. This is based on the fiqh maxims (*Qawaid Fiqhiyyah*) which states "The originality of things is permissibility" (*Al-'aslu fi al-ashyaa' al-ibahah*). It is considered

permissible if the use does not contradict with the *Shariah* law itself. *Maqasid Shariah* creates a balance in the use of information technology so that the usage is always on the balance sheet of goodness (*maslahah*) and avoid of any harm (*mafsadah*) either to individuals or communities, which based on the Quran and Sunnah.

Through the convenience of financial technology (fintech), the general public can carry out daily activities such as online transaction of money, online payment for vehicle takaful, online transaction for investment activity and any financial transactions and communication easier and faster. However, in using financial technology, it is deemed necessary to observe the purposes or intentions (*qasd*) for each transaction activities so that there is no contradiction to the *Shariah* principles. Therefore, considerations by the promoting of benefit (*Jalb al-Maslahah*) should be based on essential objectives, namely necessities (*daruriyyah*), needs (*hajiyyah*) and embellishments (*tahsiniyyah*). From the necessities (*daruriyyah*), it should be preserving on five necessities (*daruriyyah al-khamsah*), such as religion (*din*), life (*nafs*), intellect (*'aql*), progeny (*nasl*) and wealth (*mal*).

At the first level, the use of financial technology is a necessities (*daruriyyah*), when the existing technology has been using as necessity in a daily market activity of community and highly benefits for a public interest. At this level, it is an obligatory to the government as a policy maker in transforming of financial technology activities to be in line with the *Shariah* compliant since the preservation of religion is an obligatory on every Muslim.

At the second level, the application of financial technology is a needs (*hajiyyah*), if without the use of financial technology, the daily life of human beings would be affected and causing difficulty for individuals or society in general. At this stage, financial technology has become an urgent requirement for the government to facilitate the daily affairs and activities of the community. This is in line with the objectives of the *Shariah* (*maqasid al-Shariah*), which seeking the benefit or repelling the harm (*jalb al-maslahah 'aw daf' al-madarrah*). This is also supported by the fiqh maxims (*qawa'id al-fiqhiyyah*) which states "Need is treated as necessities, whether of a public or private nature." (*Al-hajat: tunazzalu manzilatu al-darurah, 'ammah kanat aw khassah*). Therefore, when the application of financial technology becomes a need that is included in the current necessities of general or specific activity, then the development of the financial technology is permissible for the purpose of facilitating related matters.

At the third level, the use of financial technology is an embellishments (*tahsiniyyah*) when the advancement of financial technology is offered in various forms beyond the requirements in daily activities. For example, having a more expensive and high-tech smartphone or taking more expensive use depends on the intention and purpose which also considers the preservation of five elements, namely the preservation of religion, the preservation of life, the preservation of intellect, the preservation of the progeny and the preservation of the wealth.

FINANCIAL TECHNOLOGY WITH THE FIVE PRESERVATIONS OF MAQASID SHAR'IAH

The ease services of financial technology nowadays open space for every individual and society to make any financial transaction without borders. Therefore, a Muslim who believes in Allah SWT should take into account the boundaries embodied in the *Shari'ah* principles. Even though the use of such technology is the will, the need and the want of the present day, it is necessary to take account of the preservation of religion by not being involved with any prohibited by Allah SWT.

Preservation of religion is an obligatory when a development of financial technology facilities which led to commit a sin or immorality to Allah SWT. Therefore, the application of financial technology is necessities (*daruriyyah*) to control, so that it is not misused to cause the user to neglect the remembrance of Allah SWT including any prohibited element such as *riba*, *gharar* and *maysir* in financial technology

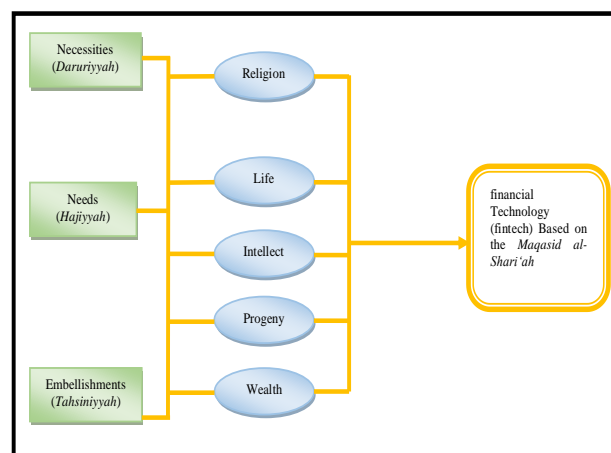
CONCLUSION

In conclusion, the convenience in the use of financial technology is in harmony with the *Shari'ah* objectives that provide the convenience of individuals and communities whilst in carrying out their day-to-day activities and demands. The need for the use of such financial technology should be seen whether it is a use that falls under the category of necessities (*daruriyyah*), needs (*hajiyyah*) and embellishments (*tahsiniyyah*). Priority should be given to the category of *daruriyyah*, then *hajiyyah* and subsequently *tahsiniyyah*. In each of these categories, the use of information technology should consider of the five preservation, namely the preservation of religion (*al-ddin*), the preservation of life (*al-nafs*), the preservation of intellect (*al-'aql*), the preservation of progeny (*al-nasl*) and the preservation of wealth (*al-mal*). This can

transaction activities. Preservation of life should also be considered in using financial technology. The continuous development of financial technology without restrictions and controls would also affect the physical and mental health of a person. An individual is also prohibited from accessing pornographic websites because this activity can undermine a person's mentality. Consequently, this brings about the generation with weak mentality making the Muslim community and the country become stagnant and weak. The preservation of intellect is an important thing to consider in every purpose of using financial technology.

Individuals are also prohibited from using financial technology facilities that would bring themselves closer to the adultery. Adultery might lead to birth of children out of wedlock's. Such abuse of financial technology affects the preservation of progeny. Therefore, the preservation of the progeny is an important thing to consider in every purpose of using facilities of financial technology. The use of uncontrolled information technology can also cause a person's productivity to decline and may result in job loss. Other than that, the misuse of financial technology by making fake sales information would results in the acquisition of property that is considered prohibited in Islam. The preservation of the property should be considered so that it does not lose the livelihoods and so that the wealth or property and the sustenance earned are indeed permissible (*halal*) and received the blessings of Allah SWT. Therefore, the use of financial technology with good purpose will produce the best output either to yourself or to the organization and society.

be demonstrated through the following framework figure 1.



ACKNOWLEDGMENTS

I am so delightful deep thanks to Allah SWT for everything I have. May Allah (swt) grant His rewards on all of us for producing this journal and measure every effort put in as our good deeds in this world and the Hereafter, Insha'Allah.

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- [11] Al-Ghazali, M. (1998). *al-Mustasfa min 'ilm al-usul*. Beirut: Dar al-Kutub al-'Islamiyyah. Vol. 1. pp. 174. ومقصود الشرع من الخلق خمسة وهو أن يحفظ عليهم دينهم ونفسهم وعقلهم ونسلهم ومالههم فكل ما يتضمن حفظ هذه الأصول الخمسة فهو مصلحة وكل ما يفوت هذه الأصول فهو مفسدة ودفعها مصلحة