



The Dynamics of Sharia Business Law in Responding to Innovations in Digital-Based Islamic Financial Products

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A. Introduction

As the country with the largest Muslim population, it is only fitting that Indonesia should be a pioneer and leader in the development of Islamic finance in the world. This is not an impossible dream, as Indonesia has enormous potential to become a global player in

Islamic finance. To support the Islamic economic and financial ecosystem, it is necessary to integrate every element that supports the Islamic economy, including coordination among policymakers, regulatory support, and government incentives to develop the halal industry (Muchtar, 2023). The potential of the Islamic economy and finance in Indonesia is also strengthened by the development of Islamic businesses in support of MSMEs. In addition, the large number of Islamic boarding schools in Indonesia also drives the economy (Adamin et al., 2024; Harahap et al., 2022).

The development of Islamic finance in Indonesia, which is more market-driven and bottom-up in meeting the needs of the community, thereby placing greater emphasis on the real sector, is also a distinct advantage. Unlike the development of Islamic finance in Iran, Malaysia, and Saudi Arabia, where Islamic finance development is more focused on the financial sector rather than the real sector, and the role of the government is very dominant. In addition to regulatory support, the placement of government funds and state-owned enterprises in Islamic financial institutions has significantly increased their total assets, especially when these countries enjoyed windfall profits from rising oil and commodity prices (Jam'an et al., 2024; Priyatno et al., 2023).

In addition, the growth of Islamic fintech in Indonesia continues to show positive developments. Fintech in Indonesia has enormous potential because it can provide solutions to urgent needs that cannot be met by traditional financial institutions, especially Islamic fintech. That is why public enthusiasm for the growth of Islamic economic practices is very high, especially with the proliferation of Islamic financial institutions (LKS), one of which is Islamic Tekfin (Yuliana et al., 2021).

Based on the background of the above issues, this study has several main questions, namely: first, how are Islamic financial products (such as green sukuk, Islamic fintech, Islamic crowdfunding, Islamic QRIS, Islamic e-money, etc.) innovated? Second, how are Islamic financial products developed and supervised? Third, what is the role of DSN-MUI in supervising Islamic financial products? Fourth, what is the procedure for Islamic Financial Institutions (IFIs) to submit new products for a fatwa from the DSN-MUI? Fifth, what is the role of regulatory sandboxes in Islamic financial innovation? Sixth, what is the business model for technology-based Islamic finance? Seventh, how is ESG (Environmental, Social, and Governance) implemented in Islamic finance? Eighth, what are the challenges and opportunities for Islamic financial product innovation in the digital era?

B. Literature Review

This study builds on several previous studies, the first of which is Rizqa Rahmaddina et al in their journal article entitled “Analysis of Opportunities and Obstacles to Sharia Fintech Financial Literacy in the Era of the Industrial Revolution 4.0.” Financial technology (fintech) is an innovation that combines technology and financial services aimed at providing solutions related to financial intermediation, thereby making financial services more accessible to the public. The development of Islamic fintech in Indonesia is currently growing rapidly, presenting an opportunity for further growth. This study aims to identify the opportunities and challenges of Islamic fintech in the modern era. The research design employed in this study is qualitative with a descriptive analysis strategy. The study seeks to review all scientific literature published in the past five years to ensure that the data and analysis remain up to date. Data collection sources include secondary data and literature reviews. The results of the study indicate that Islamic fintech has a large market share due to the large Muslim population. However, data security, regulations, and other factors remain obstacles to the development of Islamic fintech at present. According to the author, a dedicated website containing information, references, and recommendations on the latest materials related to Islamic fintech is needed to facilitate financial literacy among the public. The uniqueness of this study, although descriptive, is that few have researched the topic discussed, so this study can provide information about Islamic fintech financial literacy in the era of the 4.0 industrial revolution by identifying and formulating it in detail, thereby explaining the topic discussed in sufficient depth. However, the first step that must be taken is to increase awareness of technological literacy among all segments of society and continuously update this understanding to make access to fintech easier. Based on the research findings and limitations identified, the recommendation is to conduct further research on related topics, such as users of Islamic fintech (Rahmaddina et al., 2023).

The second is Rika Nur Amelia et al in their journal entitled “Sharia Fintech in the Future: Opportunities and Challenges.” This article aims to explore the future of sharia fintech with a focus on the opportunities and challenges faced by this industry. This research seeks to provide a comprehensive understanding of how Islamic fintech can develop and compete in the global financial market. This research uses a qualitative approach with a literature review method. The selection of literature sources used in this research includes scientific journal articles, books, industry reports, and academic publications related to Islamic finance, financial technology, and financial regulation. The findings of this study indicate that Islamic

fintech has great potential for growth, especially in countries with significant Muslim populations. However, the main challenges include strict regulations, lack of financial literacy, and competition with conventional fintech. In conclusion, Islamic fintech in Indonesia has significant opportunities and challenges. The Financial Services Authority provides opportunities for Islamic fintech players to officially register their businesses, but this process is hampered by licensing requirements and minimum capital requirements. The negative stigma attached to conventional fintech also influences public perception of Islamic fintech, while a lack of understanding of Islamic principles makes it difficult for the public to distinguish between the two types of fintech (Amelia et al., 2024).

The third is Dede Abdul Fatah in his journal entitled “The Development of Sharia Bonds (Sukuk) in Indonesia: Analysis of Opportunities and Challenges.” Sukuk is an investment instrument that provides opportunities for Muslim and non-Muslim investors to invest in Indonesia. Sukuk can be utilized to build the nation's economy and create community welfare. However, the above opportunities do not mean that there are no challenges and obstacles, one of which is in the social context, where the SBSN Law is very inclusive of market segments. Investors who purchase the first State Sukuk are predominantly conventional institutions. One strategic initiative that needs to be implemented immediately to optimize the opportunities for developing sukuk instruments is to conduct outreach to raise public awareness about the existence of sukuk by involving various stakeholders such as practitioners, observers, academics, and Islamic scholars in the field of Islamic economics (Muawanah et al., 2021).

The fourth is Yulia Anggraini in her journal entitled “The Role of Green Sukuk in Strengthening Indonesia's Position in the Global Sharia Financial Market.” This research was motivated by the development of sukuk in Indonesia from an international perspective in 2016, which showed positive results. Indonesia became the largest issuer of sukuk with a total issuance of USD 10.5 billion from the total sukuk issuance by governments worldwide. Amid the development of sukuk instruments, other instruments such as green bonds emerged, offering investments in environmental development. With the emergence of green bonds as investment instruments in the environmental sector, Islamic investment instruments with the same focus as green bonds also emerged. These instruments are then referred to as green sukuk. Indonesia is recorded as a pioneer in the issuance of green bonds in the Southeast Asian region. The purpose of this study is to identify the potential for green sukuk issuance in Indonesia to strengthen Indonesia's position in the global Islamic financial

market. This study uses a qualitative approach with a historical method (Anggraini, 2018).

The fifth is Aisya Sekar Gading Pujiantoro et al in their journal entitled "Narrative Review: Opportunities and Challenges of Green Sukuk in Indonesia." Indonesia, as a tropical country, is considered one of the richest countries in the world in terms of biodiversity. However, this condition also makes Indonesia more vulnerable to climate change. Therefore, one of the government's commitments in responding to climate change is to initiate various green financing instruments, one of which is green sukuk. Green sukuk is a relevant instrument for addressing climate change because this type of financing is specifically aimed at development that considers environmental aspects. This study aims to examine the opportunities and challenges in developing green sukuk financing in Indonesia. Using a narrative review of various sources, the results of the study indicate that there are opportunities for Indonesia to develop green sukuk. Some of the reasons supporting this include the continuous growth of the Islamic financial market over time, increasing investor awareness of environmental issues, and high demand for energy supply. However, there are also several challenges for Indonesia in developing green sukuk instruments, such as low public literacy regarding green sukuk, insufficient socialization, and certain characteristics of investors (Pujiantoro et al., 2021).

Based on the five literature sources above, it appears that none of them have been able to comprehensively and thoroughly discuss and explain Islamic business law and Islamic financial product innovation. Therefore, this study aims to provide an in-depth analysis of Islamic business law and Islamic financial product innovation.

C. Research Methodology

This study uses a qualitative method with a library research approach. The qualitative method was chosen because it is suitable for exploring in depth the meaning, normative basis, and theoretical relationships related to sharia business law and sharia financial product innovation. This study does not aim to quantitatively measure a particular phenomenon, but rather to analyze concepts, regulations, fatwas, and scientific views related to the development and supervision of Islamic financial products within the framework of Islamic law and positive law in Indonesia. The main data sources in this study are secondary and consist of literature relevant to the research theme.

In the library research approach, the data collection process is carried out by searching for, identifying, classifying, and analyzing relevant documents. Researchers use critical literature review techniques to assess the validity, consistency, and academic

contribution of each source used. This process also includes searching for digital documents through online libraries such as Perpustakaan Nasional, Google Scholar, Garuda Ristekdikti, and international journal databases. Each document is then analyzed to identify normative gaps, legal developments, and current issues in the implementation of sharia financial products in the digital era.

Data analysis in this study was conducted descriptively and analytically, namely by presenting data obtained from library sources and then analyzing it using the framework of sharia business law, maqashid sharia, and the principles of sharia financial management. This analysis also considered the legal normative approach, which examines the written legal norms governing Islamic financial innovation and the role of institutions such as the DSN-MUI and state regulators. In this process, the researcher compared various opinions and legal doctrines from experts and linked them to applicable regulations to find a comprehensive legal synthesis and argumentation.

D. Results and Discussion

Sharia Financial Product Innovation

Innovation in Islamic financial products is a response to the dynamic needs of the Muslim community for financial services that are not only efficient and inclusive, but also in line with Islamic principles. Over the past two decades, various innovations have emerged to address the challenges of modernization, digitalization, and sustainability. Some of these include green sukuk, Islamic fintech, Islamic crowdfunding, Islamic QRIS, and Islamic e-money. These innovations not only expand access to financial services but also affirm the existence of Islamic finance as part of global solutions, whether in the field of green economy, digital finance, or strengthening the microeconomy. Each innovation comes with different characteristics and regulations but remains rooted in the fundamental principles of Islamic finance, such as the prohibition of *riba*, *gharar*, and *maisir*, while promoting fair and transparent transactions.

According to Nur Ika Mauliyah et al, as a tangible form of integrating sharia principles with contemporary needs, green sukuk has emerged as a highly strategic instrument. Green sukuk are Sharia-compliant bonds whose proceeds are specifically used to finance environmentally friendly projects, such as renewable energy, waste management, sustainable transportation, and water conservation. Indonesia is recorded as the first country in the world to issue retail-based green sukuk in 2018 (Mauliyah et al., 2023). On the other

hand, sharia fintech and sharia crowdfunding have emerged as a response to the growing need for fast, easy, and transparent funding without involving conventional financial institutions. These services are generally based on application technology with sharia contracts such as *mudharabah*, *musyarakah*, or *murabahah*. Both platforms are also regulated by OJK regulations and DSN-MUI fatwas to maintain the halal nature of their operations.

Payment technology has also experienced significant acceleration through the presence of QRIS Syariah and e-money Syariah. QRIS (Quick Response Code Indonesian Standard) Syariah allows people to make digital transactions between various payment platforms with a single QR code, but based on sharia principles and only in collaboration with banks/financial institutions that have sharia business units (Mustaqim & Yasin, 2023).

To provide a comprehensive overview of the types of Islamic financial product innovations and their characteristics, the author presents the following table classifying Islamic financial product innovations:

Table 1.
Islamic Financial Product Innovations and Their Characteristics

No	Innovative Products	Main Objective	Sharia Instruments
1	Green Sukuk	Financing environmentally friendly projects	Ijarah, Wakalah(Khalilurrahman & Mubarrak, 2022)
2	Fintech Syariah	Sharia-based peer-to-peer financing	Mudharabah, Murabahah(Khoiriyah & Ansori, 2024)
3	Crowdfunding Syariah	Public fundraising for halal projects	Musyarakah, Wakalah(Nelly et al., 2022)
4	QRIS Syariah	Standardization of digital sharia payments	Wadiah, Ijarah
5	E-Money Syariah	Interest-free digital payments	Qardh, Wadiah(H.M. Baso et al., 2023)

Source:

The table above shows that although the forms of innovation vary greatly, they all remain within the corridor of Sharia principles and laws. The clarity of the Sharia instruments used is very important to ensure that the transactions carried out do not violate the principles of *muamalah*, and have a clear fatwa basis from the Indonesian Ulema Council's National Sharia Board (DSN-MUI). Additionally, the presence of regulatory authorities such as the OJK and BI strengthens the legal and technical standing of these innovations. This serves as a strong signal that the development of Sharia-compliant financial products in Indonesia is on a positive, progressive path, and remains grounded in established Islamic law.

With the advent of these innovations, Islamic finance has become more competitive and inclusive, reaching young people, MSME players, and communities that have not had access to formal financial services. However, strengthening supervision, public education, and legal certainty remain important tasks. Innovation must not be separated from the principles of prudence (prudential principle), halal (sharia compliance), and consumer protection. Therefore, collaboration between regulators, religious scholars, academics, and industry players is a key factor in ensuring the success and sustainability of Islamic finance innovations in this digital age.

The Process of Developing and Supervising Sharia Financial Products

The process of developing Islamic financial products is essentially the result of integrating business innovation, Islamic principles, and state regulations governing the financial system. The development of these products begins with the identification of market needs, where Islamic Financial Institutions (IFIs) assess economic trends and community needs for specific financial services. Following this, the product concept is formulated, including the determination of the Islamic contracts to be used, such as *mudharabah*, *musyarakah*, *murabahah*, *wakalah*, or *ijarah*, as stipulated in DSN-MUI Fatwa No. 02/DSN-MUI/IV/2000 on *Mudharabah*, No. 08/DSN-MUI/IV/2000 on *Musyarakah*, and No. 04/DSN-MUI/IV/2000 on *Murabahah*. At this stage, the LKS also develops operational simulations and business mechanisms for the product to ensure compliance with Sharia principles and national regulations. The concept was also adjusted to the standards of Law No. 21 of 2008 on Sharia Banking to ensure its legal validity.

Once the product design is complete, LKS must submit a fatwa application to the Indonesian Ulema Council's National Sharia Board (DSN-MUI) as the main authority in determining sharia compliance. This process is a crucial normative step, as only products that have obtained a DSN-MUI fatwa may be marketed. The application is submitted formally through written documents, contract proposals, and internal reviews, which are then discussed by the DSN-MUI Fatwa Commission. If approved, the fatwa issued becomes the standard reference for product implementation. In the case of digital or technology-based products, such as sharia fintech and sharia e-wallets, the products are also tested within the regulatory sandbox framework in accordance with OJK Regulation No. 13/POJK.02/2018 on Digital Financial Innovation and OJK Regulation No. 57/POJK.04/2020 on Securities Crowdfunding, so that they can be controlled from the testing stage and do not pose systemic risks.

The supervision process is carried out in two layers, namely internal supervision by the DPS (Sharia Supervisory Board) and external supervision by the OJK and Bank Indonesia. The DPS is tasked with supervising daily operational activities to ensure they are always by sharia principles based on DSN-MUI fatwas, as well as compiling periodic sharia compliance reports. Meanwhile, the OJK oversees institutional aspects, risk management, and consumer protection. In cases of violations, the DPS may issue warnings or recommend contract amendments, while the OJK has the authority to impose administrative sanctions or revoke licenses. Additionally, since the implementation of POJK No. 17/POJK.03/2023 on the Application of Governance for Sharia Commercial Banks and Sharia Business Units, supervision also covers risk management governance, ESG reporting, and transparency principles.

The Role of DSN-MUI in Supervising Sharia Financial Products

The National Sharia Council of the Indonesian Ulema Council (DSN-MUI) has a central role in maintaining the purity of sharia for the products and activities of Islamic Financial Institutions (LKS) in Indonesia. DSN-MUI acts as the national fatwa authority in the field of Islamic economics and finance which provides legal certainty regarding the halalness of a product, contract, and transaction model. According to Rahmat Ilyas, the supervisory role of DSN-MUI is carried out not directly in the form of daily operational control, but through a normative regulatory mechanism, namely the issuance of sharia fatwas which become an absolute reference for LKS in designing and running their products. (Ilyas, 2021) These fatwas cover various financial contracts and instruments such as *mudharabah*, *musyarakah*, *murabahah*, *ijarah*, *istishna'*, and *wakalah*, which are then internalized into the internal policies of the LKS by the Sharia Supervisory Board (DPS).

DSN-MUI also plays the role of an initial filter for Islamic financial product innovation. Before a product can be marketed by LKS, the product concept must first be submitted to DSN-MUI for an in-depth sharia study. If it is considered to meet the principles of sharia and maqashid sharia, then DSN-MUI will issue a written fatwa as a form of authorization and implementation guidelines. For example, DSN-MUI Fatwa No. 110/DSN-MUI/IX/2017 on Financing Services Based on Information Technology Based on Sharia Principles is the main foundation for sharia fintech operations in Indonesia. Thus, every digital financial product innovation, such as sharia e-wallet, sharia QRIS, and sharia crowdfunding, must go through the process of testing the validity of sharia by DSN-MUI.

In addition to providing fatwas, DSN-MUI also fosters and supervises the Sharia Supervisory Board (DPS) in each LKS. The DPS acts as an extension of DSN-MUI in charge of overseeing the application of fatwas in the institution's operational activities on a regular basis. DSN-MUI issues guidelines and certification curriculum for DPS members through cooperation with LSP-MUI, to ensure that sharia supervision is carried out by professionals who understand the rules of muamalah fiqh and financial regulations. This supervision is not static, but is carried out on an ongoing basis through periodic reporting from DPS to DSN-MUI and periodic coordination meetings between institutions. If deviations or violations of sharia principles are found, DSN-MUI can issue clarifications, revise fatwas, or even revoke recommendations on a product.

The supervisory function of DSN-MUI is increasingly relevant and important in the digital era, where many financial products are developing very quickly and complexly. To accommodate this, DSN-MUI is involved in the regulatory sandbox program initiated by OJK and Bank Indonesia. In the context of the sandbox, DSN-MUI conducts initial verification of the suitability of sharia principles for innovative business models that do not yet have specific fatwas. For example, in the Buy Now Pay Later (BNPL) Sharia service, DSN-MUI will assess what contracts are used, the risk of gharar or usury that may arise, and the mitigation system. Overall, the role of DSN-MUI is not only limited to initial authorization, but also oversees the transformation of Islamic finance to remain consistent with Islamic teachings, protect the interests of the people, and provide confidence in the Islamic financial system nationally and internationally.

Procedures for Submitting New Products from Sharia Financial Institutions (LKS) to Obtain a Fatwa from DSN-MUI

According to the author's opinion, in the context of sharia business law in Indonesia, every new product to be issued by Sharia Financial Institutions (LKS) must first obtain a fatwa from the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). This provision is a form of the principle of prudence and sharia compliance that must be maintained since the product planning stage. The fatwa becomes the juridical as well as spiritual basis for Islamic financial operations. Products that do not have a fatwa foundation from DSN-MUI risk being considered sharia invalid, even though they may pass in terms of technical regulations. The fatwa submission procedure is carried out through a series of formal stages involving communication between the LKS, the Sharia Supervisory Board (DPS), and the DSN-MUI Fatwa Commission.

The first stage begins with the internalization of the product idea by the LKS, which is then reviewed with the internal team and DPS to develop a product concept that meets the principles of *fiqh muamalah*. At this stage, the LKS designs the business model, the contracts to be used (such as *murabahah*, *ijarah*, *wakalah*, and so on), and transaction simulations. After the concept is considered mature and meets the initial sharia requirements, the DPS will provide recommendations to the LKS to compile fatwa submission documents. All documents, such as product description, product objectives, contracts used, and risk and profit analysis, are compiled in full and sent to the DSN-MUI secretariat. Furthermore, DSN-MUI will study the document through the Fatwa Commission, which will conduct an in-depth review in terms of *fiqh*, *maqashid syariah*, and conformity with previous fatwas.

After the Fatwa Commission conducts an assessment and deliberation, the results are outlined in the form of a written fatwa officially issued by DSN-MUI. This fatwa is then given a number and date of determination, then socialized to the public and especially to the applicant LKS. The fatwa not only contains product legality, but also operational limitations, types of contracts allowed, and technical aspects that must be complied with by the LKS. In some cases, the DSN-MUI also stipulates specific conditions that must be met for product implementation, such as periodic reporting obligations or the provision of DPS under intensive supervision. If the fatwa is approved, the LKS can immediately launch its products with a strong and accountable sharia legal basis.

However, if during the submission process deficiencies are found in the documents or the product concept is contrary to sharia principles, the DSN-MUI will provide corrective notes. LKS is asked to revise and resubmit. This shows that the fatwa submission process is not a mere formality, but a substantial mechanism that ensures the accuracy and integrity of Sharia products. This procedure is especially important for innovative products such as sharia fintech, green sukuk, sharia-based crowdfunding, and sharia e-wallets, which require an adaptive and tested approach to *fiqh* law. In other words, this procedure is a guarantee that every Islamic financial product circulating in the community has gone through the stages of screening and validation according to Islam.

The Role of Regulatory Sandboxes in Sharia Financial Innovation

Regulatory sandbox is a mechanism for limited testing of new products, services, technologies, or business models in the financial services sector conducted under the supervision of financial authorities, before the product is authorized and launched to the wider community (Firmansyah et al., 2024). In the context of Islamic finance, the sandbox

serves as a safe and controlled test space to ensure that innovative products that do not yet have a clear legal basis and sharia fatwa can be tested for halalness, business feasibility, and systemic risk. Sandbox is especially important amidst the development of sharia fintech, such as sharia-based peer-to-peer lending, sharia e-money, sharia QRIS, and wakalah or musyarakah-based crowdfunding. With the sandbox, disruptive products are not immediately widely implemented, but are tested on a limited scale and directly supervised by OJK, Bank Indonesia, and DSN-MUI (Baidhowi & Triwibowo, 2023).

The main role of the sandbox in Islamic financial innovation is as a normative and technical safeguard. From a sharia perspective, products that enter the sandbox will first be assessed by the National Sharia Council (DSN-MUI) to ensure that the contracts, financial structure, and business processes are in accordance with the principles of *fiqh muamalah*. If there is no previous fatwa, DSN-MUI will conduct an assessment based on the principles of *maslahah* and *maqashid syariah* to determine the legal status of the product. In terms of technical and institutional aspects, OJK will assess risk management, data security, consumer protection, and potential integration into the national financial system. Through POJK No. 13/POJK.02/2018 on Digital Financial Innovation, OJK regulates that sharia-based fintech businesses must first follow the sandbox process before obtaining a permanent license to operate.

In addition, the sandbox also serves as a platform for collaboration between regulators, industry players, and academics, especially in strengthening the legal framework for new innovations that do not yet have a regulatory umbrella or sharia fatwa. For example, the Buy Now Pay Later (BNPL) Sharia service that has just emerged in Indonesia does not yet have a specific fatwa from DSN-MUI, so it needs to be tested first in the sandbox. At this stage, Islamic scholars and economists will be actively involved to provide input on what contracts to use (e.g. *ijarah* or *murabahah*), how to mitigate *usury* and *gharar*, and how to ensure transparency to consumers. The results of this testing can be the basis for issuing new fatwas or improving existing sharia regulations. Therefore, the sandbox does not only function as a technical test room, but also as a (sharia regulatory lab) that gives birth to new guidelines in the development of the Islamic financial industry.

Technology-Based Sharia Financial Business Model

The technology-based Islamic finance business model is a new approach to Islamic financial services that combines sharia principles with digital innovation to expand access, efficiency and accountability of the financial system. This transformation is driven by the

proliferation of financial technology (fintech), big data, artificial intelligence (AI), blockchain and the Internet of Things (IoT), which have significantly changed the way consumers interact with Islamic financial institutions. The uniqueness of this model lies in its alignment with Islamic values such as fairness (*ʿadl*), transparency, and *usury*-free, but with the packaging of modern technology that allows transactions to run quickly and efficiently. This business model is also very relevant to the concept of *maqashid sharia* because it encourages financial inclusion, empowers MSMEs, and maintains broader economic justice.

One tangible form of this business model is sharia peer-to-peer (P2P) lending, where fund owners (*shahibul mal*) can channel financing directly to fund recipients (*mudharib*) through digital platforms, with contracts such as *mudharabah* or *musyarakah* (Kharis Umardani, 2021). In this context, technology is used as a liaison and risk manager, while sharia aspects are controlled through the integration of DSN-MUI fatwas and DPS supervision. In addition to P2P lending, there are also sharia crowdfunding platforms that allow the public to fund social projects or halal businesses with a *wakalah* or *qardh* system. This service targets the informal and micro sectors that have been difficult to reach by conventional banking, so as to accelerate financial inclusion at the lower levels. To maintain sharia compliance, this business model must ensure that there are no elements of *usury*, *gharar*, or *maisir*, and use digital contracts in accordance with the principles of *fiqh muamalah*.

Other models that continue to grow are sharia e-wallets and sharia QRIS, which are forms of digital-based payment technology but still fulfill sharia principles (Jannah et al., 2025). Islamic e-wallets, for example, use *qardh* and *wadiah* contracts, and do not charge interest or late penalties as in the conventional system. This service is used for *zakat* payments, *infaq*, halal transactions at certain merchants, and even interest-free installment payments. Sharia QRIS is also developed by Bank Indonesia and certain fintech institutions to unify the inter-platform payment system while ensuring transactions are carried out by merchants who run halal businesses and do not contain *usury*. This innovation is an important key in developing a more inclusive and efficient digital Islamic economy, especially among millennials and Gen Z who are the main users of technology.

In addition to efficiency and access expansion, technology-based Islamic finance business models also provide added value in the form of transparency and accountability of transactions. For example, the use of blockchain-based smart contracts in *murabahah* or *ijarah* financing enables stricter monitoring of sharia provisions and prevents data

manipulation. Reporting and supervision by the Sharia Supervisory Board can also be done in real-time through an internal system dashboard. Going forward, this business model can be further developed into sharia robo-advisory, sharia insurtech, and sharia ESG-based investment platforms. However, the main challenge remains the need for harmonization between technology and sharia principles, improvement of people's digital literacy, and legal certainty that supports sustainable sharia innovation. Therefore, synergy between regulators, industry players, and scholars is essential for these business models to grow healthily, competitively, and maintain sharia integrity.

Implementation of ESG (Environmental, Social, and Governance) in Islamic Finance

ESG (Environmental, Social, and Governance) is a sustainability framework that has become a global standard in assessing the socio-environmental responsibilities and impacts of a business entity, including in the financial sector (Wahdan Arum Inawati & Rahmawati, 2023). On the Environmental aspect, Islamic finance shows suitability in supporting environmentally friendly activities such as financing renewable energy projects, waste management, organic farming, and green transportation projects. Products such as green sukuk issued by the Indonesian government since 2018 are concrete evidence of the implementation of ESG values in Islamic finance. These green sukuk are only used to finance projects that contribute to climate change mitigation and should not be allocated to sectors that damage the environment. Fatwa DSN-MUI supports this by allowing the use of Islamic investment funds for projects that have broad social and environmental benefits (Triwibowo et al., 2023). These projects not only fulfill sharia principles but also meet international indicators such as Green Bond Principles and SDGs (Sustainable Development Goals).

From the Social side, ESG implementation in Islamic finance is carried out through inclusive financing, productive zakat, cash waqf, and other Islamic social funds. Sharia Financial Institutions (LKS) such as BAZNAS, BWI, or micro waqf banks actively channel social funds to empower the poor, MSME players, and pesantren. The practice of qardh hasan-based financing, Islamic social responsibility funds (Islamic CSR), as well as social infrastructure funding such as Islamic hospitals and Islamic schools show that Islamic finance is very proactive in supporting the social dimension of ESG. In the context of Islamic fintech, platforms such as waqf crowdfunding or digital ZIS have helped the distribution of social funds in a transparent, accountable and efficient manner. All of this is based on the values of *al-adl* (justice), *al-amanah* (trust), and *al-ihsan* (kindness) which are foundational in Islamic economic morals.

Meanwhile, in the aspect of governance, Islamic finance is unique with the Sharia Supervisory Board (DPS) as a special governance mechanism. The DPS oversees all operations so as not to deviate from sharia principles and DSN-MUI fatwas. This provides an additional layer to conventional governance principles such as transparency, accountability and risk management. Institutions such as OJK also require the implementation of GCG (Good Corporate Governance) in Islamic finance through regulations such as POJK No. 17/POJK.03/2023 on Governance of Islamic Banks, which integrates ESG values into strategic decision-making. Companies or institutions that implement ESG in Islamic finance not only gain the trust of the market, but also receive moral and social incentives as institutions that maintain trustworthiness, fairness, and sustainability in accordance with Islamic values.

Challenges and Opportunities for Sharia Financial Product Innovation in the Digital Age

In the author's opinion, the innovation of Islamic financial products in the digital era faces quite complex challenges, both from the aspects of regulation, technology, and community culture. The first challenge comes from the lack of harmonized regulations between positive law, sharia fatwa, and the development of digital financial technology (fintech). New products such as Buy Now Pay Later (BNPL) Sharia, sharia crowdfunding, or sharia digital wallets still do not have a comprehensive legal umbrella from both the sharia and state authorities. When innovation moves fast, the process of issuing sharia fatwa and licensing from OJK or Bank Indonesia sometimes takes a long time. This can hamper business acceleration and create legal uncertainty for industry players. In addition, there are still many sharia digital platforms that experience difficulties in ensuring cybersecurity, personal data protection, and consumer digital literacy, especially in areas that have not been touched by technology to the fullest.

On the other hand, the author believes that public literacy in Islamic finance and digital technology is still low, especially among the elderly and rural communities. Although technology has opened up opportunities for financial services without geographical boundaries, the lack of understanding of sharia contracts such as *mudharabah*, *musyarakah*, or *wakalah* makes some people still hesitant to use sharia products. Moreover, Islamic finance terms are not yet familiar to new digital users. In addition, there is still a perception that Islamic finance is less competitive and slower than conventional systems, even though Islamic digital products such as e-wallets, Sharia QRIS, and digital financing are able to compete if developed properly. Therefore, education and socialization strategies are needed

from industry players and regulators so that people can understand the advantages and values of justice in Islamic finance.

However, the author believes that the opportunities for Islamic finance innovation in the digital era are enormous, as public awareness of sustainable economics, business ethics and inclusive finance increases. Tech-savvy millennials and Gen Z are looking for alternative financial services that are not only efficient but also in line with spiritual and social values. This is the momentum for Islamic finance to expand market share through technology. Products such as digital green sukuk, blockchain-based zakat, and sharia insurtech (digital sharia-based insurance) have great potential to grow. The superiority of sharia in the principles of justice, transparency, and partiality to MSMEs and the lower classes is in line with the spirit of democratic digital finance. With a digital-first approach and staying grounded in *maqashid sharia*, Islamic finance can create business models that are more adaptive and responsive to the dynamics of the times.

In the author's opinion, synergy between regulators, scholars, industry players, academics, and consumers is the main key so that existing challenges can be overcome and opportunities can be maximized. Sandbox regulation, adaptive fatwa from DSN-MUI, the establishment of an Islamic fintech research center, and collaboration between technology startups and Islamic banks are strategic steps that need to be expanded. Islamic finance should not just follow conventional innovations, but should be a pioneer in building a digital economy that is ethical and based on Islamic values. With a strong supervisory system and flexible yet principled sharia principles, Islamic financial products in the digital era can become the backbone of the people's economic development that is fair, sustainable and dignified.

E. Conclusion

Based on the above analysis, this study concludes that, first, Islamic financial product innovation is a strategic response to technological developments and the public's need for inclusive, efficient, and Islamic-compliant financial services. Products such as green sukuk, Islamic fintech, Islamic crowdfunding, Islamic QRIS, and Islamic e-money reflect an integrative effort between Islamic principles and technology. Each product not only has specific contractual characteristics but also complies with regulations from authorities such as the OJK, BI, and DSN-MUI, affirming that Islamic finance continues to develop within a clear and normative legal framework.

Second, the process of developing and supervising Islamic financial products involves a series of strict and structured stages. From identifying market needs to formulating contracts and conducting sharia testing, everything is done to ensure the legal and sharia validity of the product. The role of the OJK as an external supervisor, along with the DPS as an internal supervisor within each Islamic financial institution, serves as the two main pillars in ensuring that Islamic financial operations remain compliant with regulations. This underscores that innovation cannot be separated from the principles of prudence and sharia compliance.

Third, DSN-MUI plays a vital role in supervising sharia financial products through the issuance of binding fatwas, guidance for DPS, and active involvement in the testing process for new products. DSN-MUI fatwas not only serve as legal validation but also as Sharia guidelines to prevent deviations from the principles of *muamalah*. By involving DSN-MUI in the development of financial technologies such as Sharia BNPL and other fintech solutions, digital transformation can continue without compromising the halal and fair nature of transactions.

Fourth, the procedure for submitting new products to DSN-MUI is a formal process that begins with an internal review by LKS, the preparation of a fatwa proposal, and review by the Fatwa Commission. The documents submitted must include the contract, transaction simulation, and sharia and business risks. Once deemed feasible, DSN-MUI issues an official fatwa, which then becomes the basis for launching the product to the public. This procedure reflects the principles of transparency, accountability, and halal assurance for every sharia financial product circulating in Indonesia.

Fifth, regulatory sandboxes are an important instrument in bridging Islamic financial innovation with legalization and supervision processes. With sandboxes, products such as Islamic fintech, e-wallets, or crowdfunding are tested on a limited scale so that risks can be controlled and Islamic values can be maintained. The OJK, BI, and DSN-MUI collaborate in the sandbox process, making this mechanism not only a technical test but also a normative test of sharia validity. This accelerates the legalization of innovation without compromising regulatory quality.

Sixth, technology-based Islamic financial business models are growing rapidly, with the emergence of various digital platforms that adopt Islamic contracts in a more flexible and efficient form. Sharia peer-to-peer lending, sharia e-wallets, and social crowdfunding are solutions for financial inclusion for the community. Technologies such as blockchain and

smart contracts are even beginning to be used to ensure transparency and accountability of sharia transactions in real-time, proving that Islamic principles are highly compatible with digital innovation.

Seventh, the application of ESG (Environmental, Social, and Governance) principles in Islamic finance is an actual reflection of maqashid sharia. Environmental aspects are accommodated through green sukuk, social aspects through zakat and MSME funding, while governance aspects are strengthened through DPS supervision and GCG standards. ESG in Islamic finance is not only a global market demand, but also a manifestation of Islamic values in maintaining sustainability and economic justice.

Eighth, I believe that the challenges of Islamic financial innovation include low public literacy, unsynchronized regulations, and legal complexity of new products. However, the opportunities are even greater, especially in reaching the younger generation, expanding the halal market, and supporting sustainable development. With synergy between scholars, regulators, academics, and industry players, Islamic finance in the digital era can be a transformative solution that is not only competitive, but also based on noble Islamic ethics and spiritual values.

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