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THE ROLE OF ISLAMIC FINTECH IN PROMOTING FINANCIAL INCLUSION IN THE DIGITAL ECONOMY ERA

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Inputed : October 09, 2025
Accepted : November 08, 2025

Revised : October 20, 2025
Published : November 27, 2025

Abstract

This study aims to analyze the effect of Islamic fintech adoption on financial inclusion in the digital economy era and to examine the moderating role of sharia financial literacy. A quantitative survey approach was employed using an online questionnaire distributed to users and potential users of Islamic fintech services in Indonesia. Purposive sampling resulted in 241 valid responses. Data were analyzed using hierarchical multiple regression. The findings indicate that Islamic fintech adoption has a positive and significant effect on financial inclusion. Sharia financial literacy also shows a positive and significant impact on financial inclusion. Moreover, sharia financial literacy functions as a moderating variable that strengthens the relationship between Islamic fintech adoption and financial inclusion. These results affirm that Islamic fintech serves as a strategic instrument for broadening financial access; however, its effectiveness is strongly influenced by the level of public understanding of sharia financial principles. Therefore, enhancing sharia financial literacy and developing an inclusive digital ecosystem are crucial in promoting more equitable financial participation.

Keywords : Islamic fintech, sharia financial literacy, Islamic fintech adoption financial inclusion, digital economy

Citation :

Afrizal, A. 2025. The Role of Islamic Fintech in Promoting Financial Inclusion in The Digital Economy Era. *MSJ: Majority Science Journal*, 3(4), 116-128.

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1. Introduction

The rapid growth of the digital economy has significantly transformed global financial services, particularly with the emergence of Islamic financial technology (Islamic fintech). According to the Global Findex Database 2021, digital financial adoption has reached unprecedented levels, with 76 percent of adults worldwide owning an account and over 40 percent using digital payments. Despite this progress, financial disparities persist, especially across Muslim-majority regions where access to sharia-compliant financial services remains limited. More than 1.7 billion adults worldwide remain unbanked, a large proportion of whom reside in



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Muslim-majority countries facing shortages of Islamic-compliant financial products (Demirgüç-Kunt et al., 2022). These trends highlight the potential of Islamic fintech to bridge financial gaps through digital solutions aligned with ethical and religious values.

In Southeast Asia, Indonesia represents one of the most dynamic landscapes for Islamic fintech development. Although Indonesia has the world's largest Muslim population, sharia financial inclusion remains significantly lower at 12.88 percent (OJK, 2024). This gap reflects structural constraints such as limited Islamic financial product distribution, weak innovation, and underdeveloped digital sharia services. The capacity of Islamic fintech to reach underserved groups through cost-efficient, technology-driven solutions is consistent with, (Rahman et al., 2021) who note Indonesia's strong potential based on its large Muslim market, growing sharia economy, supportive government and Indonesian Ulema Council (MUI) policies, and increasing digital adoption.

Within this ecosystem, Peer-to-Peer (P2P) lending has become one of the most influential Islamic fintech instruments. The Cambridge Centre for Alternative Finance notes that global P2P lending transactions exceeded USD 113 billion in 2020, largely driven by emerging Asian markets (Ziegler et al., 2021). In Indonesia, both conventional and sharia-based P2P lending have expanded rapidly, serving more than 120 million borrowers and reaching a total financing volume of IDR 763 trillion by 2023 (OJK, 2024). Sharia P2P lending is particularly relevant for Micro, Small, and Medium Enterprises (MSMEs), which contribute 61 percent of GDP and 97 percent of employment (BPS, 2019) by providing financing to those who have not previously been served by formal financial institutions (Afrizal et al., 2024).

Nevertheless, the effectiveness of Islamic fintech is hindered by low sharia financial literacy. While Indonesia's general financial literacy reached 65.43 percent, sharia literacy remained at only 39.11 percent (OJK, 2024). Many users lack understanding of key Islamic financial concepts such as *riba*, *gharar*, and sharia contracts, which contributes to hesitancy in adopting Islamic digital financial services.



Regulatory and ecosystem challenges further shape the development of Islamic fintech. A robust sharia-compliant digital ecosystem requires coordinated efforts among regulators, industry associations, financial institutions, and educational bodies. Afrizal (2022) emphasizes the importance of collaboration among Islamic fintech providers, sharia banks, regulators, and fatwa authorities to ensure compliance, innovation, and consumer protection. Cross-country evidence from Malaysia, the United Arab Emirates, and Indonesia shows that regulatory clarity, sharia governance, and data protection mechanisms are critical determinants of Islamic fintech effectiveness (Muryanto, 2023).

Islamic fintech has also demonstrated significant potential for economic empowerment. Several studies suggest that fintech-based Islamic social finance tools (such as blockchain-enabled zakat/waqf platforms and sharia crowdfunding) can enhance transparency, efficiency, and outreach to underserved communities (Alshater et al., 2022; Kunhibava et al., 2024; Wahyudi et al., 2024). During the COVID-19 pandemic, Islamic fintech played a vital role in facilitating the digital distribution of social finance instruments, reinforcing its dual function in both commercial and social finance (Ascarya, 2022). These innovations position Islamic fintech as a strategic driver of inclusive and sustainable development.

Despite these developments, global evidence reveals mixed outcomes of fintech adoption. Variations in digital infrastructure, literacy levels, and sharia governance influence the extent to which digital finance promotes inclusion. Rufaidah et al. (2023) found that digital financial advances tend to cluster in urban regions with strong infrastructure, leaving rural communities underserved. Likewise, Ezzahid & Elouaourti (2021) observed that while mobile banking improved financial access in Morocco, disparities persisted among low-income users due to limited digital capability. Although both studies highlight the dynamics of access and disparities in digital financial services, neither specifically addresses Islamic fintech. This opens opportunities for further research to explore how Sharia principles interact with financial literacy, digital technology, and socio-economic conditions in supporting financial inclusion.



Although the literature is expanding, three research gaps remain. First, studies on Islamic P2P lending business models focus on innovation rather than empirically examining financial inclusion outcomes. Second, research on fintech's role in financial inclusion largely centers on conventional fintech and does not distinguish the unique mechanisms of Islamic fintech. Third, studies on Islamic fintech ecosystems seldom assess how sharia literacy moderates the link between fintech adoption and inclusion. These gaps highlight the need for a more comprehensive empirical framework.

Therefore, this study aims to analyze the effect of Islamic fintech adoption on financial inclusion and examine whether sharia financial literacy strengthens this relationship. The study contributes by filling theoretical and empirical gaps regarding how sharia-based digital innovation can enhance financial inclusion. The results are also expected to inform policymaking, sharia financial literacy strategies, and the strengthening of the Islamic fintech ecosystem in Indonesia.

Literature Review

Islamic Fintech

Islamic fintech refers to digital financial services operating under sharia principles, including the prohibition of *riba*, *gharar*, and *maisir*, and the use of contracts endorsed by the National Sharia Council. Islamic fintech has grown rapidly due to increasing demand for fast, affordable, and sharia-compliant financial services. According to Gomber et al. (2018) fintech transforms financial access through technological ease, process efficiency, and expanded service outreach.

In Indonesia, Islamic fintech appears in various forms, such as sharia P2P lending, sharia digital payments, digital zakat and waqf platforms, and app-based sharia investment services. Pişkin & Kuş (2019) found Islamic fintech encourages MSMEs and the general public to access financial services due to its speed, convenience, and compliance with Islamic principles. Nasila et al. (2024) further state that Islamic fintech provides an alternative for expanding financing among underbanked and unbanked populations.



Thus, Islamic fintech functions not only as a technological innovation but also as an instrument bridging sharia values with modern financial needs.

Financial Inclusion

Financial inclusion refers to the public's ability to access, use, and benefit from quality, affordable, and secure financial services. According to the World Bank (2025) financial inclusion involves access to formal financial services that enhance economic welfare and productivity.

In developing countries, including Indonesia, financial inclusion is a strategic agenda due to persistent access gaps, particularly among low-income communities and MSMEs. World Bank (2025); ILO (2019) highlights key barriers to financial inclusion, such as high transaction costs, limited formal financial institutions, low service outreach, and inadequate financial literacy.

Thus, financial inclusion may be enhanced through digital financial services that are adaptive, affordable, and accessible for underserved groups.

Sharia Financial Literacy

Sharia financial literacy refers to an individual's understanding of Islamic financial concepts, including riba, gharar, sharia contracts, and sharia-compliant financing and investment mechanisms. OJK (2024) reports that national sharia financial literacy remains low at 12.1 percent, posing a challenge for the development of Islamic finance, including Islamic fintech.

Khasanah et al. (2025) further emphasize that sharia financial literacy not only affects financial behavior but also strengthens the relationship between individuals' understanding of sharia finance and their interest in sharia investment instruments. Thus, sharia financial literacy plays a strategic role in encouraging public participation in Islamic financial products, including Islamic fintech services.

2. Method

This study employed a quantitative survey design to examine the effect of Islamic fintech adoption on financial inclusion and to assess the moderating role of



sharia financial literacy. Data were collected through an online questionnaire distributed to users and potential users of Islamic fintech services in Indonesia, including sharia-based peer-to-peer lending platforms, digital payment systems, and zakat/waqf applications. Purposive sampling was applied based on three criteria: respondents aged 18 or above, having internet access, and having used or expressed interest in Islamic fintech services within the past 12 months. A total of 241 valid responses were collected, exceeding the minimum sample requirement for multivariate regression analysis.

The measurement instrument consisted of three main constructs: Islamic fintech adoption, sharia financial literacy, and financial inclusion. All items were assessed on a five-point Likert scale. Islamic fintech adoption was measured through perceived usefulness, ease of use, trust in sharia compliance, and digital transaction frequency. Sharia financial literacy assessed respondents' understanding of riba, gharar, sharia contracts, and halal financial products. Financial inclusion measured respondents' access to and usage of digital financial services. Reliability and validity tests confirmed that all constructs met required thresholds, with Cronbach's alpha values above 0.70, factor loadings ranging from 0.67 to 0.86, and AVE values between 0.51 and 0.63, indicating satisfactory convergent and discriminant validity.

Data were analyzed using hierarchical multiple regression to evaluate direct and moderating effects across four sequential models. Classical assumption testing confirmed normally distributed residuals, no multicollinearity ($VIF < 10$), and homoscedasticity across all models. Ethical principles, including voluntary participation, anonymity, and confidentiality, were strictly maintained throughout the research process.

3. Results and Discussion

This study involved 241 respondents consisting of users and prospective users of Islamic fintech services in Indonesia. A majority of respondents were aged 21–30 years (64.7 percent), and 68 percent held a diploma or bachelor's degree. Overall, the demographic composition indicates that most respondents were digitally literate young adults, aligning with the context of digital financial service adoption.



Descriptive analysis shows that all three research variables have mean values above the midpoint of the Likert scale. Islamic fintech adoption recorded a mean score of 3.84 (SD = 0.58), sharia financial literacy 3.61 (SD = 0.66), and financial inclusion 3.77 (SD = 0.63). Correlations among variables were positive and significant, indicating that both Islamic fintech adoption ($r = 0.49$, $p < 0.01$) and sharia financial literacy ($r = 0.45$, $p < 0.01$) are strong predictors of financial inclusion.

Cronbach's alpha values ranged from 0.84 to 0.88, confirming high reliability. Factor loadings ranged from 0.67 to 0.86 and AVE values from 0.51 to 0.63, indicating valid constructs.

Hierarchical regression analysis was conducted in four models. Model 1, including only control variables, showed low explanatory power ($R^2 = 0.06$). Model 2, adding Islamic fintech adoption, increased R^2 to 0.29 ($\Delta R^2 = 0.23$, $p < 0.001$), showing its strong contribution. Model 3, adding sharia financial literacy, raised R^2 to 0.36 ($\Delta R^2 = 0.07$, $p < 0.001$). Model 4, including the interaction term, demonstrated a significant moderating effect ($\beta = 0.17$, $p < 0.01$), increasing R^2 to 0.40 ($\Delta R^2 = 0.04$). This indicates that sharia financial literacy strengthens the effect of Islamic fintech adoption on financial inclusion.

Based on the hierarchical regression results, all three hypotheses are supported. Islamic fintech adoption shows a significant positive effect on financial inclusion, indicating that sharia-based digital financial services help expand access and usage among users. Sharia financial literacy also demonstrates a significant positive influence, suggesting that individuals with stronger knowledge of Islamic financial principles are more likely to engage in inclusive financial practices. Furthermore, the interaction term confirms that sharia financial literacy strengthens the effect of Islamic fintech adoption on financial inclusion, indicating a meaningful moderating role.

The findings provide strong evidence that Islamic fintech plays a strategic role in promoting financial inclusion in the digital economy era. The significant positive effect



of Islamic fintech adoption confirms that sharia-based digital financial platforms can reduce access barriers and enable participation among individuals traditionally excluded from formal financial systems. This supports existing literature emphasizing fintech's ability to reach underserved and unbanked populations more effectively than conventional banking infrastructures (Ozili, 2020).

Beyond fintech adoption, this study finds that sharia financial literacy significantly contributes to financial inclusion. Individuals with a stronger understanding of Islamic financial concepts such as *riba*, *gharar*, *halal* contracts, and profit-and-loss sharing—are more likely to engage sustainably with Islamic financial services. This supports previous findings that financial literacy enhances individuals' abilities to assess financial risks, understand contract mechanisms, and make informed financial decisions (Lusardi & Mitchell, 2014). In Islamic finance, literacy reflects both financial competence and religious-ethical understanding, directly influencing user behavior and trust.

The findings on the moderating effect of Sharia financial literacy offer new theoretical contributions. The interaction analysis shows that Islamic fintech adoption has a stronger impact on financial inclusion among individuals with higher levels of Sharia literacy. This aligns with Odei-Appiah et al. (2022) who emphasize that digital access alone is insufficient to achieve meaningful inclusion; users also need the ability to understand and effectively utilize financial services. Similar insights are echoed by Ezzahid & Elouaouri (2021) who show that disparities in digital capability (not merely access) shape the extent to which digital financial services promote inclusion. By demonstrating that Sharia financial literacy amplifies the impact of Islamic fintech, this study extends prior evidence by highlighting the crucial role of user capability in achieving meaningful digital inclusion.

The findings also highlight important implications for the Islamic fintech ecosystem and regulatory environment. Although Islamic digital financial services have become more accessible, their impact remains limited when literacy levels are low. This reflects concerns that rapid digitalization may widen inequality between financially literate and illiterate users (Demirgüç-Kunt et al. (2022); Ezzahid &



Elouaourt (2021). Therefore, Islamic fintech development must be supported by comprehensive sharia literacy initiatives, user education programs, and accessible information on sharia compliance.

From a theoretical standpoint, the results contribute to debates on whether technology alone can achieve inclusive financial outcomes. The findings demonstrate that financial inclusion is not an automatic by-product of fintech expansion but a dual process driven by digital access and user capability. Thus, models of Islamic fintech adoption and future research must integrate literacy as a central determinant. Confirming literacy as a moderator strengthens theoretical integration between Islamic financial behavior, digital financial inclusion, and literacy-based decision-making.

From a practical perspective, the findings provide guidance for policymakers, regulators, and fintech providers. Islamic fintech expansion should be accompanied by initiatives aimed at increasing sharia financial literacy across demographic groups, especially young adults, rural communities, and low-income households. Partnerships among Islamic fintech firms, educational institutions, religious scholars, and regulatory authorities can enhance literacy-based empowerment, improve transparency, and build trust in digital sharia services. At the policy level, financial inclusion strategies should incorporate structured learning programs and accessible public education on digital sharia finance, rather than focusing solely on technology adoption.

4. Conclusions and Suggestions

This study concludes that both Islamic fintech adoption and sharia financial literacy positively influence financial inclusion, and that sharia financial literacy strengthens the effect of Islamic fintech adoption. This indicates that Islamic fintech can be more effectively utilized when accompanied by adequate understanding of sharia financial principles.

The implications emphasize the need for integrating Islamic fintech development with comprehensive sharia financial literacy programs. Providers should enhance



user education through in-app features, while regulators should promote transparency and consumer protection.

This study is limited by its sample (focused on internet users) and its use of self-reported measures. Future research should expand the respondent base, employ mixed methods, and include additional variables such as trust, perceived risk, and digital service quality.

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