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WHY SHOULD WE CHOOSE SHARIAH FINTECH OVER SHARIAH BANKS: AN INVESTMENT ANALYSIS

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ABSTRACT

The article investigated an analysis the preference between Shariah fintech and Shariah banks through an investment perspective. The rise of Islamic fintech represents a significant development in the financial landscape, offering a blend of Islamic finance principles with financial technology. This sector has seen rapid growth, expanding from a few companies in 2016 to over 200 by 2021. This making Shariah fintech not only promotes financial inclusion by reaching underserved populations but also supports the development of the MSMEs. Meanwhile, the Shariah banking industry facing a decline, particularly the investors' preferences in the financial industry. Does this mean the Shaiah fintech successfully competes with traditional Shariah banks by offering greater flexibility, faster transactions, and lower costs, appealing particularly to younger, tech-savvy consumers? As an outcome, the research will be qualitatively examined utilising the library study approach and employing scientific research and publications as secondary data. The study concluded that Sharia fintech has proven global development with soaring market size. This significantly contributed to social impacts, direct investment, and reliability.

Kata Kunci: Fintech, Shariah banks, Investment, Preference

ABSTRAK

Artikel ini menyelidiki analisis preferensi antara fintek Syariah dan bank Syariah dari perspekstif investasi. Munculnya fintek Syariah mewakili perkembangan signifikan dalam lanskap keuangan, menawarkan perpaduan antara prinsip keuangan Islam dengan teknologi keuangan. Sektor ini telah mengalami pertumbuhan pesat, berkembang dari beberapa perusahaan pada tahun 2016 menjadi lebih dari 200 perusahaan pada 2021. Hal ini membuat fintek Syariah tidak hanya mempromosikan inklusi keuangan dengan menjangkau populasi yang tidak sesuai kriteria nasabah bank dan juga mendukung pengembangan UMKM. Sementara itu, industri perbankan Syariah mengalami penurunan, terutama dalam preferensi investor di industri keuangan. Apakah ini berarti bahwa fintek Syariah berhasil bersaing dengan bank Syariah dengan menawarkan fleksibilitas yang lebih besar, transaksi yang lebih cepat, dan biaya yang lebih rendah, yang menarik terutama bagi konsumen muda yang sadar teknologi? Sebagai hasilnya, penelitian ini akan dianalisis secara kualitatif dengan menggunakan pendakatan studi kepustakaan dan memanfaatkan penelitian dan publikasi ilmiah sebagai data sekunder. Studi ini menyimpulkan bahwa fintek Syariah telah membuktikan perkembangan golbal dengan ukuran pasar yang meningkat. Ini berkontribusi secara signifikan pada dampak sosial, investasi langsung, dan keandalan.

***Kata Kunci**: Fintek, Bank Syariah, Investasi, Preferensi.*

A. INTRODUCTION

The rise of Islamic fintech in Indonesia has been a significant development in the country's financial landscape. Islamic fintech, a combination of Islamic finance principles and financial technology, has emerged as a promising solution to address the financial needs of the Muslim population in Indonesia, which accounts for the largest Muslim population in the world (Aulia *et al*., 2020). Indonesia's Islamic fintech industry has experienced rapid growth in recent years, with the number of Islamic fintech companies increasing from just a few in 2016 to over 200 by 2021 (Rusydiana, 2018). This growth can be attributed to the country's large unbanked and underbanked population, as well as the government's efforts to promote financial inclusion and the development of the Islamic finance sector. According to data from the World Bank, approximately 49% of the Indonesian population is unbanked, and many of these individuals are located in rural and remote areas (Noor *et al*., 2022). Islamic fintech companies have been able to leverage digital technologies to reach these underserved populations and provide them with access to financial services that are aligned with their religious beliefs.

One of the key drivers of Islamic fintech in Indonesia is the country's large Muslim population, which accounts for approximately 87% of the total population (Noor *et al*., 2022). Many of these individuals have limited access to traditional financial services, making Islamic fintech an attractive alternative. Islamic fintech companies in Indonesia offer a range of services, including peer-to-peer lending, crowdfunding, digital wallets, and mobile payment solutions, all of which are designed to comply with Islamic principles such as the prohibition of interest (riba) and the avoidance of excessive risk-taking (Firmansyah and Ramdani, 2018).

The growth of Islamic fintech in Indonesia has also been supported by the country's regulatory framework. In 2018, the Financial Services Authority (OJK) issued regulations governing the operation of fintech companies, including those offering Islamic-based services. These regulations provide a clear legal framework for the industry and help to ensure consumer protection (Aulia *et al*., 2020). Additionally, the Indonesian government has launched several initiatives to promote the development of the Islamic finance sector, including the establishment of the National Committee for Islamic Finance (KNKS) and the implementation of the Indonesia Sharia Economic Master Plan 2019-2024 (Hudaefi, 2020).

The Indonesia Sharia fintech has had a significant impact on investors in the country. As more individuals and businesses turn to Islamic fintech solutions, the demand for investment opportunities in this sector has increased. One of the key factors attracting investors to Islamic fintech in Indonesia is the potential for high returns. Many Islamic fintech companies have been able to achieve impressive growth rates, with some reporting annual revenue increases of over 100% (Firmansyah and Ramdani, 2018). This has made them an attractive investment proposition for investors who are looking to diversify their portfolios and achieve strong financial returns.

Another factor that has drawn investors to Islamic fintech in Indonesia is the potential for social impact. Many Islamic fintech companies are focused on promoting financial inclusion and providing access to financial services for underserved populations. Investors who are interested in supporting socially responsible initiatives have been drawn to these companies, as they see the potential for their investments to have a positive impact on the lives of individuals and communities. (Hudaefi, 2020)

The growth of Islamic fintech in Indonesia has also led to the emergence of a more diverse range of investment opportunities. Investors can now choose from a variety of Islamic fintech startups, each with its own unique business model and value proposition. This has allowed investors to tailor their investment portfolios to their specific risk preferences and investment goals (Firmansyah *et al*., 2019).

Meanwhile, the development of Islamic fintech in Indonesia has been marked by significant growth and innovation in recent years. According to data from the Indonesia Fintech Association, the number of Islamic fintech companies in the country has grown from just a few in 2016 to over 200 by 2021 (Rusydiana, 2018).

One of the key drivers of the development of Islamic fintech in Indonesia has been the government's commitment to promoting the growth of the Islamic finance sector. In 2018, the Financial Services Authority (OJK) issued regulations governing the operation of fintech companies, including those offering Islamic-based services.

In addition to the growth of Islamic fintech startups, the industry has also seen the emergence of a range of innovative products and services. These include peer-to-peer lending platforms, crowdfunding platforms, digital wallets, and mobile payment solutions, all of which are designed to comply with Islamic principles (Firmansyah and Ramdani, 2018) These innovations have helped to expand the reach of Islamic finance and have made it more accessible to a wider range of consumers.

Despite the significant progress that has been made in the development of Islamic fintech in Indonesia, the industry still faces a number of challenges. These include the need for greater regulatory clarity, the need for increased investment in infrastructure and technology, and the need for greater financial literacy among consumers (Muryanto *et al*., 2022). However, with the continued support of the government and the growing demand for Shariah-compliant financial services, it is likely that the Islamic fintech industry in Indonesia will continue to grow and evolve in the years to come.

Financial inclusion, which refers to the accessibility and usage of formal financial services by all segments of the population, is a key priority for the Indonesian government, and Islamic fintech has emerged as a powerful tool for achieving this goal. One of the primary ways in which Islamic fintech has contributed to financial inclusion in Indonesia is by providing access to financial services for the country's large unbanked and underbanked population. As mentioned earlier, approximately 49% of the Indonesian population is unbanked, and many of these individuals are located in rural and remote areas (Noor *et al*., 2022). Islamic fintech companies have been able to leverage digital technologies to reach these underserved populations and provide them with access to financial services that are aligned with their religious beliefs.

For example, Islamic fintech platforms such as Investree and Amartha have developed peer-to-peer financing and crowdfunding solutions that allow individuals and small businesses to access financing without the need for traditional banking services (Firmansyah and Ramdani, 2018). These platforms have been particularly popular among the country's Muslim population, who have been able to access Shariah-compliant financing options that were previously unavailable.

Many Islamic fintech companies have developed educational resources and training programs to help individuals understand the basics of financial management and the importance of saving and investing (Hudaefi, 2020). This has helped to empower these individuals and to increase their participation in the formal financial system.

The impact of Islamic fintech on financial inclusion in Indonesia can also be seen in the growth of digital financial services in the country. According to data from the Indonesian Central Bank, the number of digital financial service users in Indonesia has grown from 27.7 million in 2016 to 56.4 million in 2020 (Noor *et al*., 2022). This growth has been driven in part by the rise of Islamic fintech, which has made it easier for individuals to access financial services through their mobile devices.

The industry has solid roots and social responsibility to support the marginalised unbanked entrepreneurs, as the author has observed with a few Islamic fintech new enterprises. Identifying the factors that make shariah fintech appealing to investors is a further objective of this study. The approach of qualitative analysis and the library research study used in this research.

B. THE LITERATURE REVIEW

Role of Shariah Fintech

The digital era has brought about significant changes in the financial landscape, and Shariah fintech has emerged as a crucial player in this transformative landscape. Shariah fintech, which combines Islamic finance principles with cutting-edge financial technology, has the potential to revolutionise the way Muslims engage with financial services (Hehanussa and Syarifuddin, 2021). By leveraging digital platforms and innovative solutions, Shariah fintech can provide accessible, efficient, and Shariah-compliant financial services to the growing Muslim population worldwide.

One of the primary roles of Shariah fintech in the digital era is its ability to increase financial inclusion. Through the use of mobile applications, online platforms, and peer-to-peer lending, Shariah fintech can reach underserved and unbanked communities, providing them with access to Shariah-compliant financial products and services (Hassan *et al*., 2020). This is particularly important in regions with large Muslim populations, where traditional financial institutions may not have adequately catered to the specific needs of this demographic.

Moreover, Shariah fintech can contribute to the development of the Islamic economy by facilitating the growth of Shariah-compliant businesses and industries. By offering Shariah-compliant financing options, investment opportunities, and payment solutions, Shariah fintech can support the expansion of the halal industry and other Shariah-based enterprises (Hehanussa and Syarifuddin, 2021). This, in turn, can lead to increased economic activity and job creation within the Islamic economic ecosystem.

The halal industry, which encompasses a wide range of products and services that adhere to Islamic principles, has experienced significant growth in recent years. Shariah fintech can play a crucial role in supporting the halal industry by providing tailored financial solutions and services (Saba *et al*., 2019). For instance, Shariah fintech platforms can offer Shariah-compliant financing options for halal businesses, enabling them to expand their operations and reach new markets. Furthermore, Shariah fintech can facilitate the traceability and transparency of halal supply chains.

Shariah Fintech versus Shariah Banks

The financial landscape has witnessed a significant transformation with the emergence of Shariah fintech, which has become a crucial component in supporting the Islamic finance industry. This journal aims to explore the relationship between Shariah fintech and traditional Shariah banks, examining the advantages and challenges of each approach.

Shariah fintech has gained traction in recent years, offering innovative solutions that cater to the needs of Muslim consumers. According to a study by Todorof (2018), the global Islamic fintech market is expected to reach $3.4 billion by 2023, growing at a compound annual growth rate of 21.1%. Shariah fintech platforms provide a range of services, including peer-to-peer lending, crowdfunding, and digital wallets, all of which adhere to Islamic principles (Hasan, 2019). These technologies have the potential to increase financial inclusion and accessibility, particularly in regions with underserved Muslim populations.

While Shariah banks have long been the backbone of the Islamic finance industry, Shariah fintech is emerging as a viable alternative. Rolianah and Fu'adi (2021) highlight that Shariah fintech offers greater flexibility, faster transaction times, and lower operational costs compared to traditional Shariah banks. Additionally, Shariah’s fintech platforms can reach a broader customer base, including the tech-savvy younger generation, who may be more inclined to utilize digital financial services.

However, the relationship between Shariah fintech and Shariah banks is not entirely adversarial. Many Shariah banks have embraced fintech solutions, integrating them into their service offerings to enhance customer experience and remain competitive (Todorof, 2018). This collaboration between Shariah fintech and Shariah banks can lead to the development of innovative products and services that cater to the unique needs of the Islamic finance market.

Investor Preferences on the Financial Industry

Investors come from diverse backgrounds, each with unique financial goals, risk appetites, and investment strategies. Understanding the factors that influence their preferences is crucial for financial service providers to cater to their needs effectively. A study by Kumar and Vikkraman (2010) found that factors such as age, income, and investment experience play a significant role in shaping an investor's preference for various financial instruments. For instance, younger investors tend to be more risk-tolerant and may favour equity-based investments, while older investors often seek more stable and income-generating options like fixed-income securities (Nagy and Obenberger, 1994).

Investor preferences are shaped by a complex interplay of financial, psychological, and behavioural factors. Dhivya and Sekar (2010) identified key factors such as expected returns, risk tolerance, liquidity requirements, and tax implications as primary drivers of investment decisions. Additionally, investor biases, such as overconfidence, loss aversion, and herd mentality, can significantly influence their preferences (Kalra Sahi and

Arora, 2012). For instance, investors may be drawn to high-risk, high-return investments during periods of market optimism, only to become more risk-averse and seek safer havens when market conditions deteriorate.

The psychology of financial market investors is a crucial factor in understanding their preferences. Chhimwal, Bapat, and Gaurav (2021) found that investors' perceptions of market volatility, economic conditions, and corporate performance can significantly impact their investment decisions. Investors tend to be more cautious during periods of economic uncertainty, favouring investments perceived as less risky, such as government bonds or blue-chip stocks. Conversely, in times of market optimism, they may be more inclined to take on higher-risk, higher-return investments, such as emerging market equities or speculative ventures.

C. RESEARCH METHODOLOGY

This research will employ a qualitative analysis approach, which involves the systematic examination and interpretation of non-numerical data. The library research study methodology will be utilised, whereby the researcher will conduct a comprehensive review of relevant literature, including academic journals, industry reports, and statistical analyses. This approach will enable a thorough understanding of the subject matter and the development of a well-informed perspective.

The qualitative analysis will provide valuable insights into the financial service industry, allowing the researcher to gain a deeper understanding of the dynamics and challenges faced by investors. By examining the nuances and complexities inherent in the industry, the researcher will be able to present a critical analysis from the investor's point of view.

The library research study will serve as the foundation for this investigation, as it will enable the researcher to gather and synthesise a wide range of information from credible sources. This approach will ensure that the analysis is grounded in a robust and comprehensive understanding of the industry, its trends, and the factors that influence investor decision-making.

The data for this research will be drawn from secondary sources, including academic journals, industry reports, and statistical analyses. These sources will provide a wealth of information that will inform the critical analysis from the investor's perspective.

The use of secondary data offers several advantages. Firstly, it allows the researcher to access a broader range of information than would be possible through primary data collection alone. This breadth of data will enhance the depth and nuance of the analysis, ensuring that the researcher can identify and explore the key issues and trends relevant to investors in the financial service industry. Additionally, the use of secondary data is often more cost-effective and time-efficient than primary data collection, enabling the researcher to allocate resources more effectively towards the analysis and interpretation of the information.

The researcher will carefully evaluate the reliability and validity of the secondary data sources, ensuring that the information used in the analysis is of the highest quality and relevance to the research objectives. The research findings will be presented as a critical analysis from the investor's perspective on the financial service industry. This approach will provide valuable insights into the key considerations, challenges, and opportunities that investors face when navigating this complex and dynamic sector.

The critical analysis will delve into the various factors that influence investor decision-making, such as market trends, regulatory changes, technological advancements, and competitive dynamics. The researcher will critically examine these elements and their impact on the financial service industry, offering a nuanced and well-informed perspective that will be of great value to investors.

Furthermore, the critical analysis will explore the strategies and approaches that investors can employ to navigate the financial service industry effectively. This may include discussions on portfolio diversification, risk management, investment selection, and the evaluation of financial products and services.

By delivering the research findings through a critical analysis from the investor's point of view, the researcher will ensure that the insights and recommendations are directly relevant and applicable to the target audience, ultimately enhancing the practical value of the study.

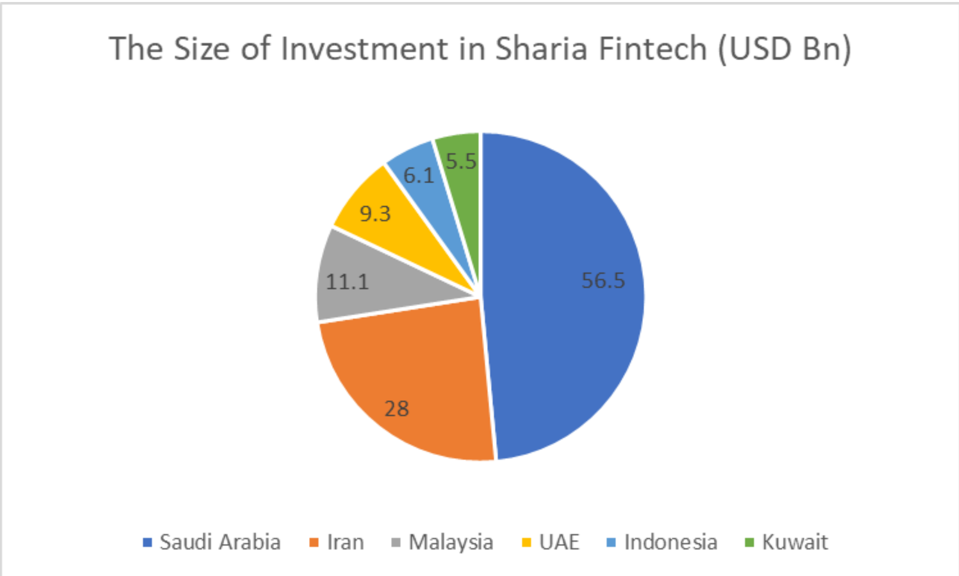
D. RESULT AND DISCUSSION

Result Analysis

According to the report from Global Islamic Fintech Report (2024), the global Shariah Fintech Market was $138 billion in 2023. This will be projected to grow up to $306 billion by 2027 with 17.3% CAGR (Compound Annual Growth Rate), or represent 1.2% of the global fintech market.

To have a better picture of the shariah fintech around the world, where the data about the investment size of the top six countries:

Chart 1. Investment Size Cross Jurisdictions



(Source: Global Islamic Fintech, 2024)

Saudi Arabia has emerged as a significant player in the global investment landscape, committing a staggering 56.5 Billion USD to various projects and initiatives.

This substantial investment underscores the country's ambition to diversify its economy and strengthen its position as a regional powerhouse. The sheer scale of this investment highlights Saudi Arabia's determination to drive economic growth and development, positioning itself as a hub for international business and investment.

Iran, another key player in the region, has also made a significant investment of 28 Billion USD. This investment reflects Iran's efforts to revitalise its economy and attract foreign capital following the easing of international sanctions. The country's strategic location, vast natural resources, and burgeoning population make it an attractive destination for investors seeking to tap into emerging markets. Iran's investment strategy aims to modernise its infrastructure, diversify its industries, and foster sustainable economic growth.

Malaysia, a vibrant Southeast Asian economy, has committed 11.1 Billion USD to various investment projects. This investment showcases Malaysia's commitment to strengthening its position as a regional economic hub and a gateway to the broader ASEAN market. The country's stable political environment, well-developed infrastructure, and skilled workforce have made it an appealing destination for foreign investors seeking to expand their operations in the region.

The United Arab Emirates (UAE) has also made a significant investment of 9.3 Billion USD. As a global financial and business centre, the UAE has been at the forefront of attracting foreign direct investment, leveraging its strategic location, world-class infrastructure, and business-friendly policies. This investment reflects the UAE's ongoing efforts to diversify its economy, reduce its reliance on oil and gas, and position itself as a hub for innovation, technology, and sustainable development.

Indonesia, the largest economy in Southeast Asia, has committed 6.1 Billion USD to various investment projects. This investment showcases Indonesia's potential as an emerging market and its efforts to attract foreign capital to drive economic growth and development. With a large and growing population, abundant natural resources, and a rapidly expanding middle class, Indonesia offers investors a compelling opportunity to tap into a dynamic and rapidly evolving market.

Kuwait, a key player in the Gulf region, has made an investment of 5.5 Billion USD. This investment reflects Kuwait's ongoing efforts to diversify its economy and reduce its reliance on oil exports. As a stable and prosperous country, Kuwait has been actively seeking to attract foreign investment to support the development of its non-oil sectors, such as infrastructure, tourism, and renewable energy.

Discussion

The investors’ preferences become the major factor in portfolios and investment analysis. After thoroughly examining the pattern of the market size, at least five main points that investors choose Shariah fintech over Shariah banking. The explanation of these points is as follows:

a. Social Impact

Islamic fintech has emerged as a promising alternative to traditional Islamic banking, offering a more accessible and inclusive financial ecosystem. Unlike conventional banks, Islamic fintech companies operate on the principles of Shariah, which prohibit interest-based transactions and promote ethical and socially responsible practices (Ahmed *et al*., 2019). This shift has had a significant social impact, particularly in terms of financial inclusion and empowerment of underserved communities.

One of the key advantages of Islamic fintech is its ability to reach a wider segment of the population, including those who may have been previously excluded from the formal financial system. Through the use of digital platforms and mobile applications, Islamic fintech companies can provide financial services to individuals and small businesses in remote or underserved areas, where traditional brick-and-mortar banks may have limited presence (Kurbonova, 2023). This increased accessibility has enabled more people to access Shariah-compliant financial products and services, fostering financial inclusion and economic development.

Moreover, Islamic fintech companies often prioritize social impact over profit maximization, aligning their business models with the principles of Islamic finance (Kasmon *et al*., 2024). By offering products and services that cater to the needs of the community, such as microfinancing, crowdfunding, and peer-to-peer lending, these companies have been able to support small and medium-sized enterprises, as well as individuals who may not have access to traditional banking services. This, in turn, has led to the creation of employment opportunities, the empowerment of marginalized communities, and the overall improvement of socioeconomic conditions (Naifar, 2019).

Measuring the social impact of Islamic fintech is crucial to understanding its effectiveness and guiding future developments. While traditional financial metrics, such as profitability and market share, are important, a more comprehensive approach is needed to capture the broader social and economic benefits of this emerging sector. One potential methodology for measuring the social impact of Islamic fintech is the Social Return on Investment (SROI) framework. SROI is a tool that quantifies the social, environmental, and economic value created by an organization or intervention (Ahmad and Habib, 2021). By assigning monetary values to social outcomes, SROI can provide a holistic assessment of the impact generated by Islamic fintech companies.

The SROI methodology involves several steps, including stakeholder engagement, outcome mapping, and financial proxies. This process allows researchers to identify the key stakeholders affected by Islamic fintech, the specific outcomes they experience, and the monetary value associated with those outcomes. By comparing the social value created to the resources invested, the SROI ratio can be calculated, providing a clear and measurable representation of the social impact (Naifar, 2019). In addition to SROI, other evaluation frameworks, such as the Impact Management Project (IMP) and the United Nations Sustainable Development Goals (SDGs), can be employed to assess the social impact of Islamic fintech. These approaches focus on measuring the positive and negative changes experienced by stakeholders, as well as the contribution of Islamic fintech to broader societal goals (Kasmon *et al*., 2024).

Unlike traditional financial institutions, Islamic fintech companies operate as intermediaries, with no direct interest in maximizing shareholders' values. This unique positioning allows them to prioritize the social and ethical aspects of their operations, aligning their business models with the principles of Islamic finance (Ahmed *et al*., 2019). As intermediaries, Islamic fintech companies facilitate transactions and connect various stakeholders, such as investors, borrowers, and entrepreneurs, without actively participating in the underlying financial activities. This approach helps to maintain the integrity of Shariah-compliant practices, as the fintech company's role is limited to enabling the flow of funds and information, rather than directly engaging in interest-based or speculative activities (Kurbonova, 2023).

By acting as an intermediary, Islamic fintech companies can leverage technology to streamline the financial process, reduce transaction costs, and increase transparency. This, in turn, can lead to greater accessibility and affordability of Shariah-compliant financial services, particularly for underserved communities (Naifar, 2019).

Furthermore, the intermediary role of Islamic fintech companies allows them to maintain a neutral position, focusing on facilitating ethical and socially responsible financial transactions, rather than prioritizing profit maximization. This approach helps to build trust and confidence among the Muslim community, who may have been previously hesitant to engage with traditional financial institutions due to concerns about Shariah compliance (Ahmad and Habib, 2021).

While the social impact of Islamic fintech is promising, there are also challenges and limitations that need to be addressed. One of the key challenges is the lack of standardization and regulatory frameworks governing the Islamic fintech industry, which can create uncertainty and hinder its growth (Naifar, 2019).

Additionally, the integration of Shariah principles into fintech solutions can be complex, requiring a deep understanding of Islamic finance and the ability to navigate the nuances of Shariah compliance. This can pose a barrier for some fintech companies, who may struggle to develop products and services that meet the strict requirements of Islamic law (Ahmed *et al*., 2019).

Another limitation is the relatively small scale of the Islamic fintech industry compared to the broader fintech landscape. While the sector is growing rapidly, it still represents a small fraction of the overall fintech market, limiting its ability to achieve significant social impact at a larger scale (Kasmon *et al*., 2024).

To address these challenges, policymakers, regulators, and industry stakeholders will need to collaborate to develop a robust regulatory framework, promote standardization, and support the growth and development of the Islamic fintech sector. Additionally, efforts to educate and raise awareness about the social and ethical benefits of Islamic fintech can help to increase its adoption and impact (Kurbonova, 2023).

b. Direct investment with a Clear Project Description

One benefit of adopting Shariah fintech as proposed to Shariah banking is that investors can select investment portfolios from the platform with a defined project profile, but they are unable to do so with Shariah banks.

One key aspect of fintech transformation is the rise of fintech-driven direct investment. In this model, fintech platforms gather funds from investors and channel them directly into carefully selected projects, bypassing traditional financial intermediaries. This approach offers several advantages, including increased accessibility, transparency, and the potential for higher returns.

Fintech platforms leverage data analytics and advanced algorithms to identify promising investment opportunities, often focusing on sectors or ventures that may have been overlooked by traditional financial institutions. By providing direct access to these investment opportunities, fintech platforms empower investors to diversify their portfolios and potentially achieve higher yields. Moreover, the streamlined nature of fintech-driven direct investment can result in lower transaction costs, further enhancing the appeal for investors (Che Hassan *et al*., 2024).

The growth of fintech direct investment is particularly evident in the Islamic finance sector. Shariah-compliant fintech platforms, or "Shariah fintech," have emerged as a compelling alternative to conventional banking and investment channels. These platforms cater to a growing segment of the population seeking investment options that align with their religious and ethical principles (Gulrez, 2021).

One of the key advantages of Shariah fintech is its ability to provide investment opportunities to marginalised entrepreneurs and ventures that may have been overlooked by traditional financial institutions. These platforms often have less stringent regulatory requirements and a greater willingness to consider projects with high potential but limited collateral or credit history (Monika *et al*., 2021).

This inclusive approach aligns with the principles of Islamic finance, which emphasise social responsibility and the equitable distribution of wealth. Shariah fintech platforms can provide access to capital for underserved communities, empowering them to pursue their entrepreneurial dreams and contribute to economic growth (Yasini and Yasini, 2019). Moreover, Shariah fintech platforms typically operate with a lower margin percentage compared to traditional banking institutions. This reduced margin allows for more competitive returns for investors while still maintaining compliance with Shariah principles (Muda *et al*., 2021). This model can be particularly appealing to investors seeking ethical and socially responsible investment opportunities.

Fintech platforms, with their agile and technology-driven approaches, are challenging the traditional role of banks as the primary gatekeepers of investment opportunities (Muda *et al*., 2021). Banks, however, are not passively observing this shift. Many have embraced fintech innovations, either by developing their in-house solutions or partnering with fintech companies. This integration of fintech and traditional banking can create a symbiotic relationship, where banks leverage the agility and innovation of fintech to enhance their service offerings and remain competitive (Monika *et al*., 2021).

The rapid growth of fintech-driven direct investment has also brought about regulatory challenges. Policymakers and regulatory bodies must strike a balance between fostering innovation and ensuring the stability and integrity of the financial system (Gulrez, 2021). In the case of Shariah fintech, the regulatory landscape is evolving to accommodate this emerging sector. Jurisdictions with established Islamic finance frameworks, such as the Gulf Cooperation Council (GCC) countries, have been proactive in developing regulatory guidelines and frameworks to support the growth of Shariah-compliant fintech (Gulrez, 2021).

These regulatory efforts aim to provide a clear and transparent operating environment for Shariah fintech platforms, addressing issues such as Shariah compliance, investor protection, and risk management. By establishing a robust regulatory framework, policymakers can help to build trust and confidence in the Shariah fintech ecosystem, ultimately supporting its long-term sustainability and growth (Yasini and Yasini, 2019).

c. Reliable Platform with Wider Market Penetrations

The Shariah fintech is reliable with a diverse market. The emergence of financial technology (fintech) provides innovative solutions that cater to the evolving needs of consumers. The integration of Islamic principles with cutting-edge technology has the potential to enhance the accessibility, efficiency, and inclusivity of financial services for Muslim communities worldwide. One of the key aspects of a reliable Islamic fintech platform is the implementation of robust security measures and risk management protocols. Fintech companies operating within the Islamic finance ecosystem must adhere to stringent Shariah compliance standards, ensuring that their products and services align with the principles of Islamic law. This includes the avoidance of interest-based transactions, speculation, and other prohibited activities. By prioritising Shariah compliance, Islamic fintech platforms can build trust and confidence among their target market, fostering a sense of financial security and ethical practices (Muryanto *et al*., 2022).

Moreover, the reliability of Islamic fintech platforms is further enhanced by the integration of advanced technological solutions, such as blockchain, artificial intelligence, and data analytics. These technologies can enhance the transparency, traceability, and efficiency of financial transactions, reducing the risk of fraud and enhancing the overall user experience (Ali *et al*., 2019). Additionally, the adoption of robust cybersecurity measures, including data encryption, access controls, and incident response plans, can help safeguard the confidentiality and integrity of customer information, further strengthening the reliability of Islamic fintech platforms.

As the Muslim population continues to grow, particularly in regions such as the Middle East, Southeast Asia, and Africa, the potential for Islamic fintech to reach a wider audience is substantial (Jamalurus, 2022). One of the key drivers of wider market penetration for Islamic fintech is the increasing digital adoption and financial inclusion among Muslim communities. The rise of smartphone usage and internet connectivity has made it easier for individuals to access financial services, including those offered by Islamic fintech platforms. By leveraging digital channels, Islamic fintech companies can reach underserved or unbanked populations, providing them with accessible and Shariah-compliant financial solutions (Hudaefi *et al*., 2023).

Furthermore, the growing awareness and acceptance of Islamic finance principles among both Muslim and non-Muslim consumers have contributed to the wider market penetration of Islamic fintech. As more individuals become familiar with the ethical and socially responsible nature of Islamic finance, the demand for Shariah-compliant financial products and services has increased, creating a favourable environment for the expansion of Islamic fintech (Bensar and Rodríguez, 2018).

To capitalise on this opportunity, Islamic fintech companies must focus on developing innovative and user-friendly platforms that cater to the diverse needs of their target market. This may involve the integration of mobile applications, digital wallets, peer-to-peer lending platforms, and other cutting-edge technologies that enhance the accessibility and convenience of Shariah-compliant financial services.

The Shariah fintech ecosystem encompasses the various stakeholders, regulations, and infrastructure that support the development and growth of Islamic fintech. One of the critical components of the Shariah fintech ecosystem is the presence of robust regulatory frameworks and oversight. Regulatory bodies, such as central banks and financial authorities, play a crucial role in establishing guidelines, standards, and licensing requirements for Islamic fintech companies. These regulations help to ensure that the industry operates within the boundaries of Shariah principles, protecting the interests of consumers and maintaining the integrity of the financial system (Muryanto *et al*., 2022).

Additionally, the Shariah fintech ecosystem relies on the collaboration and integration of various stakeholders, including Islamic financial institutions, technology providers, Shariah scholars, and industry associations. This collaborative approach helps to foster innovation, knowledge sharing, and the development of Shariah-compliant financial solutions that cater to the diverse needs of the market (Ali *et al*., 2019).

The Shariah fintech ecosystem also encompasses the availability of Shariah-compliant financial infrastructure, such as Islamic banking platforms, Shariah-based crowdfunding platforms, and digital payment systems. These infrastructure components provide the necessary foundation for Islamic fintech companies to develop and deliver their services, ensuring that they operate within the parameters of Islamic finance principles (Jamalurus, 2022).

Islamic fintech platforms can leverage digital technologies to reach individuals who may have previously lacked access to traditional financial services, offering them Shariah-compliant solutions that cater to their specific needs. This can lead to improved financial literacy, increased savings, and the promotion of entrepreneurship and small-medium enterprise (SME) development within Muslim communities (Bensar and Rodríguez, 2018).

Another significant opportunity in Shariah fintech is the potential for innovation and the development of novel financial products and services. By combining Islamic finance principles with cutting-edge technologies, Islamic fintech companies can create innovative solutions that address the unique challenges and preferences of Muslim consumers (Jamalurus, 2022).

E. CONCLUSION

The banks can play a crucial role in the fintech-driven direct investment ecosystem. By gathering funds and carefully selecting investment projects, banks can leverage their expertise and risk management capabilities to curate a portfolio of high-potential ventures for fintech investors. This collaborative approach can benefit both the financial institutions and the investors, fostering a more diverse and resilient investment landscape.

Banks are uniquely positioned to contribute to the fintech-driven direct investment ecosystem. With their extensive knowledge of the financial markets and their ability to assess risk, banks can play a pivotal role in identifying and supporting promising fintech ventures. By aggregating funds from various sources, banks can channel these resources into carefully selected investment projects, creating a diverse portfolio that caters to the needs of fintech investors.

The banks' expertise in risk management can be particularly valuable in this context. Through their rigorous due diligence processes and robust risk assessment frameworks, banks can ensure that the investment projects they curate are not only high-potential but also well-positioned to navigate the challenges inherent in the fintech industry. This, in turn, can provide fintech investors with a greater sense of confidence and security, encouraging them to participate more actively in the direct investment ecosystem.

Furthermore, the collaborative approach between banks and fintech investors can foster a more diverse and resilient investment landscape. By combining the complementary strengths of financial institutions and fintech innovators, this partnership can unlock new opportunities and drive the growth of the fintech sector. The banks' access to a wide range of resources and their established networks can complement the agility and innovative spirit of fintech companies, creating a synergistic relationship that benefits all stakeholders.

The role of banks in the fintech-driven direct investment ecosystem is not limited to fund aggregation and project selection. They can also provide valuable guidance and support to fintech startups, helping them navigate the complexities of the financial industry and access the resources they need to scale their businesses. This collaborative approach can contribute to the overall development and sustainability of the fintech ecosystem, ultimately strengthening the resilience of the investment landscape.

In conclusion, the banks' involvement in the fintech-driven direct investment ecosystem can be a game-changer. By leveraging their expertise, risk management capabilities, and collaborative approach, banks can play a crucial role in curating.

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