

Evolution of Contract Law in the Digitalization of Islamic Finance: Implementation of the Latest 2024 Policy to Support Sharia Inclusion and Compliance

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Abstract

Background - The rapid digitalization of financial services has reshaped global markets, presenting both opportunities and challenges for Islamic finance. Rooted in Sharia principles, Islamic finance operates on the foundation of ethical and equitable financial practices, emphasizing risk-sharing and the prohibition of *riba* (usury), *gharar* (excessive uncertainty), and *haram* transactions. As digital platforms such as fintech, blockchain, and e-wallets dominate financial landscapes, adapting Islamic contract law to align with these innovations is imperative. Indonesia, as the world's largest Muslim-majority country, is uniquely positioned to lead the integration of digital technologies with Sharia-compliant frameworks. However, the evolution of contract law in this domain remains fragmented, with gaps in regulatory harmonization and practical implementation posing significant challenges to Sharia inclusion and compliance. Despite progress in expanding Islamic finance, there is a critical gap in ensuring that contract law evolves alongside technological advancements. The absence of standardized regulatory guidelines for digital Islamic contracts creates inconsistencies and legal uncertainties. Additionally, integrating Sharia principles into smart contracts, digital wallets, and other fintech solutions is complicated by the lack of clarity on issues such as dispute resolution, jurisdiction, and cross-border compliance. Existing studies often focus on either digital finance or Islamic law in isolation, failing to address their intersection comprehensively.

Purpose - This study aims to: 1. Analyze the evolution of contract law in the context of digital Islamic finance. 2. Assess the impact of Indonesia's 2024 policies on Sharia inclusion and compliance. 3. Propose actionable strategies to harmonize digital finance innovations with Islamic legal principles.

Methodology - The research employs a normative legal approach, analyzing statutory provisions, Sharia principles, and regulatory frameworks to assess their compatibility with digital financial practices. Key sources include: 1. Law No. 21 of 2008 on Islamic Banking, which provides the foundational framework for Sharia-compliant financial practices. 2. Bank Indonesia Regulation No. 24 of 2023, focusing on the digital transformation of financial services. 3. Fatwas from the National Sharia Council (DSN-MUI) addressing the permissibility of digital financial instruments. Case studies of blockchain-based sukuk issuance and Sharia-compliant crowdfunding platforms are reviewed to illustrate the practical application of contract law. Comparative analysis with other jurisdictions, such as Malaysia and the Gulf Cooperation Council (GCC) countries, provides insights into best practices.

Findings - The findings highlight significant advancements in digital Islamic finance: 1. Policy Innovation: Indonesia's 2024 regulatory updates emphasize the inclusion of digital tools for contract creation and execution, such as blockchain and AI-driven compliance monitoring. These policies aim to enhance transparency, efficiency, and Sharia compliance. 2. Sharia Integration: Recent fatwas recognize the permissibility of smart contracts within certain conditions, such as explicit terms for risk-sharing and prohibition of *riba*. However, their implementation requires robust oversight mechanisms. 3. Challenges: The absence of unified Sharia-compliance standards for digital platforms and insufficient digital literacy among stakeholders hinder the full integration of Islamic contract law into the digital finance ecosystem.

Originality - This research bridges the gap between digital finance and Islamic law by offering a holistic analysis of the evolution of contract law in the digitalization of Islamic finance. Unlike prior studies that address these areas in isolation, it examines their intersection, providing actionable recommendations to policymakers and practitioners. By highlighting the role of Indonesia's 2024 policies in fostering Sharia inclusion and compliance, the study contributes to advancing equitable and sustainable financial practices in a technology-driven world.

Keywords: Contract Law, Digitalization, Evolution, Islamic Finance, Sharia Compliance
