PalArch's Journal of Archaeology of Egypt / Egyptology

THE POTENTIAL EXISTENCE OF SHARIA FINTECH LENDING DURING THE COVID-19 PANDEMIC IN INDONESIA

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Trisadini Prasastinah Usanti. The Potential Existence Of Sharia Fintech Lending During The Covid-19 Pandemic In Indonesia-- Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(4), 1673-1691. ISSN 1567-214x

Keywords: Fintech, Sharia, Covid-19, Sharia Supervisory Board

ABSTRACT

The purpose of this research is to analyze the potential of Sharia Fintech Leading based on the Syariah principle to provide solutions for citizens in need of funds. This is a normative research carried out to analyze the related to legal material, value, and doctrine to provide answers related to citizens' legal issues. The statute's approaches are conceptual and comparative laws between Islam and positive law related to Sharia Fintech Lending in Indonesia. Furthermore, the Independency of Sharia Supervisory Board (DPS) in implementing its supervisory function over the product and Sharia Financial Institutions influence the marketed product or services implemented by Sharia banks in order to fulfill the associated principles. The position and function of DPS are simply regulated in the National Sharia Council DSN-MUI Articles of Association, therefore, its operations are in accordance with Islamic work ethics. The results showed that supervisory was created through an obligation to establish a DPS in every Sharia Financial Institutions. In addition, the existence of the Sharia Supervisory Board, which supervises products, and Sharia Fintech is influenced by product or services marketed as well as the activities needed to fulfill the sharia principal.

INTRODUCTION

Securities lending and borrowing are legal mechanisms through which investors borrow or lend shares to other market participants. It is commonly practiced in communities whenever funds are required. Besides banking activities, this act is also implemented by financial or non-banking institutions such as leasing, venture capital, pawnshops, consumer finance, and fintech lending companies, which emerged around 2017 in Indonesia.

This activity is based on certain precautionary measures, therefore, not all applications submitted by prospective customers or debtors are approved, they need to meet the bank requirements. There are 11 sharia organizers (Ammana, Dana Syariah, Danakoo, Alami Syariah, Duha Syariah, Qazwa, Bsalam, ETHIS, Capital Boost, PAPITUPI Syariah, Berkah Fintek Syariah) and 1 Investree which functions conventionally.[1] On October 14, 2020 the Evidence of Registration of 2 fintech lending organizers, namely Minitech Finance Indonesia and Digital Quantum Tek companies, was canceled, thereby reducing their number to 155.[2]

According to OJK, Fintech Lending employs the most recent financial technologies to streamline the traditional and non-transparent loan services carried out in rupiah currency directly between the creditor and lender (lender and debtor or borrower based information technology). It is also referred to as Financial Technology-Based Money Lending Services (LPMUBTI).[3] However, when the World Health Organization (WHO) declared COVID-19 as a global pandemic because of its rapid spread in almost all the affected countries[4] even in Indonesia, where the first positive case reportedly occurred on March 2, 2020 as officially announced by President Joko Widodo[5]. the economy was badly affected by 5,32% in the II Quarterly of 2020 (Central Agency on Statistics (BPS)). In addition, approximately 31,444 companies or MSMEs in the informal sector was also hit by the loss of 538,385 workers.[6]

In 2019, there was 399 illegal fintech lending however, an increase was recorded from January to March 2020, when the Investment Alert Task Force (SWI) discovered relatively 508 entities. This increase is inseparable from the difficult situation caused by the pandemic.[7]

The Chairman of the Indonesian Joint Funding Fintech Association (AFPI) Adrian Gunadi reported that during the epidemic, it turned out that fintech lending experienced rapid development. Throughout 2020, approximately 130% of loans were disbursed compared to the amount spent in 2019.[8]

Conversely, both the legal and illegal conveniences offered by this system are associated with two problems, namely, one party benefits. In certain instances, the other (borrower) tends to feel miserable due to high-interest rates and penalties associated with late payment. The imposition of interest rates on fintech lending is contrary to the sharia law due to riba,' which implies the addition of illegal income (batil). Therefore, its existence, which is based on sharia offers fairer alternative financing, particularly during the Covid-19 pandemic. This research aims to

[1] **OJK, "Perusahaan Fintech Lending Berizin Dan Terdaftar Di OJK."**
[2] **OJK, "Penyelenggara Fintech Lending Terdaftar Dan Berizin Di OJK per 14 October 2020."**
[3] **OJK, "Financial Technology - P2P Lending."**
[4] **World Health Organization (WHO), "Country & Technical Guidance - Coronavirus Disease (COVID-19)."**
[5] **Badan Nasional Penanggulangan Bencana, "Peta Sebaran."**
[6] **Biro Humas Kemnaker, "Menaker: Badai Pasti Berlalu, Panggil Kembali Pekerja Yang Ter-PHK Nanti."**
[7] **Fauzan, "Wabah Virus Corona Bikin Fintech Ilegal Menjamur."**
[8] **Novika, "Pinjaman Online Ke Fintech Meroket Di Masa Pandemi."**

analyze the potentials of Sharia Fintech Leading in accordance with the Syariah principle, which offers solutions to citizens that require funds.

METHODOLOGY

This research adopted a normative approach related to legal materials, values, and doctrines to resolve certain issues frequently encountered. It further adopted procedures typical to the characteristics of Legal studies (jurisprudence) in accordance with its tradition. The techniques applied are statute, and conceptual approaches, including comparing Islamic law and its positive effect on Sharia Fintech Lending.

DISCUSSION

Peer to Peer lending based on the Sharia Principal

According to Hussein Elasrag, Islamic law encompasses several aspects of Muslim life, including religion, politics, economy, banks, and businesses. Therefore, this system is in accordance with the law, which is stated as follows:

Islamic finance is a typical example of a financial system directly based on the religion's ethical precepts. It does not only offer investment guidelines, rather it also provides a set of unique products. It also provides guidelines for multiple aspects of Muslim life, including religion, politics, economics, banking, businesses, and legal systemssuch as shariah-compliant financing (SCF), which seeks to shape monetary practices and instruments that conform to Islamic law. Subsequently, major financial principles of Shari'ah include a ban on interest, uncertainties, adherence to risk-sharing and profit-sharing, and promotion of ethical investments that enhances the society and does not violate practices banned in the *Qur'an* as well as tangible asset-backing.[9]
Cyber risk is one of the legal dangers encountered in Islamic financial technology transactions. Legal protection under prudent parties is urgently needed to safeguard those bound to Islamic financial technology, particularly financers.[10] This sector is dominated by the younger generation of Muslims that encourages the growth of Islamic finances. Irrespective of the fact that there are opportunities for rapid development, most of the significant ones are unresolved.[11]

Fintech lending based on the sharia principle also refers to the guidelines submitted by the ADB Institute:[12]

1. Recording and Registration Mechanism All fintech firms not regulated by other authorities need to comply with the OJK regulations in accordance with the three key steps:

[9] **Elasrag, *Islamic Finance: Basic Concepts and Issues*.**
[10] **Usanti and Silvia, "THE CHARACTERISTICS OF PRUDENTIAL PRINCIPLE IN ISLAMIC FINANCIAL TECHNOLOGY IN INDONESIA."**
[11] **Wahed Editors, *Islamic Fintech Report 2018 Current Landscape & Path Forward*.**
[12] **Batunanggar, "Fintech Development and Regulatory Frameworks in Indonesia."**

a. Recording Fintech firms need to submit all the necessary documents required by the OJK for verification and analysis in order to ascertain whether they: (1) meet the criteria as innovators and complies with its regulation; (2) are among those selected to be tested with the regulatory sandbox, and (3) which cluster they belong to based on the business model mapping.

b. Regulatory Sandbox is carried out using a sampling and prototyping method, where selected fintech from each business model (cluster) is tested. There are five key steps, namely 1) understanding the business model, process, and governance; 2) selecting the review methodology and scenarios; 3) testing and experimentation; 4) improvement of the model; and 5) final evaluation. The review process involves a panel of supervisors that are bound to offer their opinions on whether or not the fintech's model needs to be improved or recommended for registration or operation.

c. Registration of Fintech firms, recommended by the regulatory sandbox needs to send its registration application at most 6 months after getting the recommendation status.

2. Governance, Risk and Compliance of the firms - Fintech needs to develop and adopt good governance, effective risk management, and compliance with all rules and regulations to ensure a safe and sound practice.

3. Monitoring and Surveillance Mechanism – irrespective of the fact that it is regulated and supervised by OJK, fintech also needs to carry out risk self-assessment. However, they have to submit quarterly performance reports during the regulatory sandbox, and immediately they are registered, the firm also needs to submit a monthly risk self-assessment record. Fintech firms need to continuously report the performance of their portfolio to the customers.

4. Customer Protection Fintech firms need to adopt the following basic principles: transparency, fair treatment, reliability, data privacy and security, and effective and efficient handling of customers' complaints.

Meanwhile, the parties included in Fintech Lending based on sharia principal consist of organizers, financiers, and finance recipient as stipulated in MUI DSN No. 117/DSNMUI/II/2018 related to LPMUBTI based on sharia principal, which is reviewed as follows:

a. Organizers are Indonesian legal entities that provide, manage, and operate the LPMUBTI.

b. Financiers are the owners or parties that possess the funds and give to those that need the money.

c. Recipient of the Finance is the party that needs fund which is sourced from the financier

Based on data from the Financial Services Authority (OJK), 11 sharia fintech and 1 conventional investree, however 2 out of the 11 firms are not referred to as Peer to Peer Lending because financiers are not involved in their activities. This is shown in table 1:

Table 1. Sharia P2P Lending in Indonesia that is licensed and registered by the OJK

2. o	**Name**	**web**	**Company Name**	**Letter of permission / registered**	**Letter of permission / registered**	**Type of business**	**Purpose of Financing**
1	investree	http://www.investree.id	Investree Radhika Jaya Company	KEP-45/D.05/2019 13 May 2019	Licensed	Conventional and Sharia	Small and medium enterprises (UKM)
2	Ammana	http://ammana.id	Ammana Fintek Syariah Company	KEP - 123/D.05/2019 13 December 2019	Licensed	Sharia	Small and medium enterprises (UKM)
3	ALAMI	p2p.alamisharia.co.id	Alami Fintek Sharia Company	KEP - 21/D.05/2020 27 Mei 2020	Licensed	Sharia	Small and medium enterprises (UKM)
4	DANA SYARIAH	http://danasyariah.id	Dana Syariah Indonesia Company	S-384/NB.213/2018 08 June 2018	Registered	Sharia	Property Funding
5	Danakoo	www.danako.id	Danakoo Mitra Artha Company	S-67/NB.213/2019 1 February 2019	Registered	Sharia	Individual financing for purchases of goods, purchases of vehicles, home renovations, educational needs, Umrah trips, wedding expenses and hospital treatment
6	**Duha Sharia** **Not as Peer to Peer Lending**	www.duhasyariah.com	Duha Madani Syariah Company	S-292/NB.213/2019 30 April 2019	Registered	Sharia	Consumptive financing (purchase of goods / services), halal Umrah travel,

							and productive financing according to Sharia principles
7	qazwa	www.qazwa.id	Qazwa Mitra Hasanah Company	S-440/NB.213/2019 7 Augustus 2019	Registered	Sharia	Small and medium enterprises (UKM)
8	bsalam	www,bsalam.id	Maslahat Indonesia Mandiri Company	S-441/NB.213/2019 7 Augustus 2019	Registered	Sharia	Bringing together lenders and Umrah Travel Organizers (PPIU)/ Special Hajj Organizers (PIHK) who require venture capital for the departure of the Umrah / Hajj.
9	ETHIS	http://ethis.co.id	Ethis Fintek Indonesia Company	S-608/NB.213/2019 30 October 2019	Registered	Sharia	Property Funding
10	KAPITALBOOST	http://kapitalboost.co.id	Kapital Boost Indonesia Company	S-609/NB.213/2019 30 October 2019	Registered	Sharia	Small and medium enterprises (UKM)
11	**PAPITUPI Syariah** **Not as Peer to Peer Lending**	www.papitipisyariah.com	Piranti Alphabet Perkasa Company	S-612/NB.213/2019 30 October 2019	Registered	Sharia	Papi Fund is a product financing facility for members of the Employee Cooperative with a profit sharing scheme (Mudharabah) to help the Employee

							Cooperative to improve the welfare of its employees in meeting the productive needs of employees and consumers.
12	Sharia Fintech	www.finteksyariah.co.id	Berkah Finteck Syariah Company	S-600/NB.213/2019 30 October 2019	Registered	Sharia	Small and medium enterprises (UKM)

Based on the data from OJK, which was collected from March to August 2020, it was discovered that there are only 11 fintech lending firms in accordance with sharia principles compared to 146 conventional ones, which is relatively 7% of the total 157 establishments. Therefore, only 1.42% of the sharia based firm is equivalent to 3.185.497.978.589 of the total assets of all fintech lending. This shows that the development of sharia fintech lending in Indonesia is slow compared to the conventional type, which has a dominating percentage. The perpetrator data and assets are shown in the table 2:[13]

Table 2. Perpetrator Data and Fintech Lending Assets

Information	**March 2020**	**April 2020**	**May 2020**	**Juni 2020**	**July 2020**	**August 2020**
Fintech Assets (Satuan Rupiah)	3.671.421.740.420	3.614.528.740.453	3.527.948.308.868	3.195.979.949.810	3.252.337.637.837	3.185.497.978.589
Registered Conventional Fintech	1.624.588.527.926	1.647.317.897.848	1.386.731.826.540	1.348.848.867.628	1.227.117.517.164	1.207.032.536.521

[13] **OJK, "Statistik Fintech Lending Periode Agustus 2020: Ikhtisar Penyelenggara Fintech Lending Periode Agustus 2020."**

Authorized Conventional Fintech	1.998.089.610.123	1.916.619.114.820	2.100.109.282.559	1.803.846.420.920	1.963.330.814.580	1.913.493.130.962
Registered Sharia Fintech	38.522.413.941	41.327.912.311	21.435.561.179	28.725.688.395	39.198.978.534	43.021.729.572
Authorized Sharia Fintech	10.221.188.430	9.263.815.475	19.671.638.590	14.558.972.868	22.690.327.559	21.950.581.534
Information	**March 2020**	**April 2020**	**May 2020**	**June 2020**	**July 2020**	**August 2020**
Fintech players	161	161	161	158	158	157
Registered Conventional Fintech	125	125	118	116	116	115
Authorized Conventional Fintech	24	24	31	31	31	31
Registered Sharia Fintech	11	11	10	9	9	9
Authorized Sharia Fintech	1	1	2	2	2	2

Therefore, the data obtained since March 2020 showed that the interest rates based on the sharia principle were disbursed in accordance with the COVID-19 pandemic. The extremely enormous potentials for fintech lending to help people that need funds due to the impact of the pandemic by disbursing them based on sharia principles.

According to Egi Arvian Firmansyah, sharia fintech has a bright future, and the total number of customers keeps improving, although certain issues in Islamic countries need to be addressed. The research results show that its development is based on the growth of profits.[14]

The principles underlying Sharia-based Fintech Lending

Muamalah Islam mandates both investors and entrepreneurs to share profits and losses fairly. A basic principle of Islamic Finance is "No risk, no gain" Hussein Elasrag reported that:

One of Islam's most important objectives is to realize the greater need for justice in society. According to the Qur'an, all the messengers of God were sent to promote justice, and any society that embraces injustice ultimately heads towards its decline and destruction. An essential requisite is implementing a set of rules or moral values, which everyone needs to accept and embrace faithfully. To fulfill its first condition, Islam expects both the financier and the entrepreneur to equitably share the profits and losses. Therefore, for this purpose, one of the basic principles of Islamic finance is: "No risk, no gain." This aids in instilling discipline in the system by motivating financial institutions to carefully assess the risks as well as effectively monitor the use of funds by borrowers. The double assessment of risks by both the financier and the entrepreneur also aids in instilling discipline into the system. It also goes a long way in boosting the effective use of resources and reducing excessive lending.[15]

According to Umar A. Oseni, Islamic finance compliance based on sharia law encompasses several important roles, as stated:

Whenever it involves fintech solutions in Islamic finance, Sharīʻah compliance is paramount based on similar principles applicable to commercial transactions regarding certain prohibited elements such as contracts and financial services. The same principles are applied to specific instances, which require legal adaptation (takyif fiqhi) to address the peculiarities of fintech, as there are no precedents to these disruptive innovations.[16]

The activities carried out by fintech lending or financial institutions based on the following sharia principals as reported in Article 21 Supreme Court Regulation Number 2 of 2008 regarding Compilation of Sharia Economic Law (KHES), **First,** ikhtiyari or voluntary, **Second**, trustworthy or the ability keep promises, **Third**, ikhtiyati or caution **Fourth,** luzum or lack of changes, **Fifth,** mutually beneficial, **Sixth**, taswiyah or equality, **Seventh,** transparency, **Eight** competency, **Ninth,** taisir or convenience, **Tenth,** good itikad or intentions; **Eleventh,** needs to be

[14] **Firmansyah and Anwar, "ISLAMIC FINANCIAL TECHNOLOGY (FINTECH): ITS CHALLENGES AND PROSPECT."**
[15] **Elasrag, *Islamic Finance: Basic Concepts and Issues*.**
[16] **Oseni, Ali, and de Anca, "Fintech in Islamic Finance."**

lawful. One of the principles that are based on the legal relationship between the parties are ikhtiyati or cautions, and it needs to be reflected in the Islamic Financial Institutions such as in Islamic banking, sharia assurance, pawnshops including the P2P activities of Lending Sharia.

Furthermore, the word ta'awun is derived from the Arabic word ta'awana or yata'aawanu or ta'awunun which simply means to offer mutual aid, assistance, or help to a fellow human being. This principal makes it possible for the basic needs of life to be easily met. Fintech lending need not conflict with sharia principals. Contract awarded to the parties involved in information technology-based financial Service providers is usually in the form of coherent agreements in accordance with characteristics, similar to the other Islamic principles. In the DSNMUI No. 117/DSNMUI/II/2018 concerning the LPMUBTI clearly stated that information technology-based financial services are in accordance with the sharia principal therefore, it does not ascertain the implementation of *riba*[17], *gharar*[18], *maysir*[19], *tadlis*[20]and *dharar*[21].

Islamic financial system is based on the law of commerce which is known as fiqh al-mu'amalat. It takes into consideration, issues of social justice, equity, and fairness in all business transactions, promote entrepreneurship, protects the rights to properties as well as emphasizes the transparency of contractual obligations according to the divine law of Allah and the last messenger Muhammad (PBUH). It is also based on Shariah approved products that does not involve Riba (interest or usury), gharar (uncertainty), maisir (gambling), and non-halal (prohibited) activities. Although Islam permits profits, however the pre-determined fix amount of returns is prohibited. The risk of loss and variability of profits needs to be encountered in order to get returns.[22]

Funding service model relating to information technology based on sharia principle is implemented by the organizers in accordance with the DSNMUI No.117/2018, which is reported as follows:

1. Funded accounts (factoring);
2. Financing the procurement of ordered goods by a third party (purchase order) and online businesses (online sellers);
3. Financing the procurement of goods for online businesses in accordance with the organizers of payment gateway;
4. Funding for employee, that needs the salary has been slashed based on the cooperation scheme of the institution;

[17]Based on the DSN-MUI No.117what is meant by riba is addition that giving in exchange for ribawi goods (riba fadhl) or addition which promised on the principal of debt as compensation for absolute deferment of payments (riba nasi'ah).
[18]Based on theFatwa DSN-MUI No.117 What is meant by Gharar is uncertainty in a contract, both regarding the quality or quantity of the contract object as well as regarding its delivery.
[19]Based on the DSN-MUI No.117 What is meant by Maysir is every contract which implemented with the unclear purpose, and the careless calculation, speculation, or chance.
[20]Based on the DSN-MUI No.117 What is meant by Tadlis is the actions the act of hiding the object of the contract defect by the seller to deceive the buyer as if the contract object is not defective.
[21]Based on the DSN-MUI No.117 What is meant by Dharar is an action that may cause harm or loss to other parties.
[22] Salman and Nawaz, "Islamic Financial System and Conventional Banking: A Comparison."

5. Community based Funding (community based) which is given to memberships that need the money.

OJK 77/2016 does not regulate information technology-based services in accordance with sharia principal, rather it monitors those related to the conventional type, which is reported as follows: [23]

1. As stated in an electronic document, the relationship between the organizer that issues the loan and the borrower or recipient is centered on the interest rate and fine agreement. The determination of the loan interest rate is not an ideal way to realized profit according to sharia principal. Subsequently, riba' is forbidden during the entire transaction. The research carried out by Khotibul Umam reported that:[24] Presently, 2 insights are related to bank interest rates and riba firstly, based on a view that equates them without determining the amount charged and secondly, the difference between them which involves banking transactions as long as it is in accordance with the interest rate policy set by the government.
2. There is no regulation regarding Sharia Supervisory Board (DPS) when the organizer, which is in the form of a limited liability company or cooperative, implements certain activities based on the existence of DPS as stipulated in article 109 Constitutions Number 40/2007 regarding limited liability companies. Conversely, one of the characteristics of Sharia Financial Institution (LKS), in accordance with the existence of DPS is that they are in charge of offering advice and suggestions to the directors that ensure the activities are carried out based on the sharia principles example the existence of DPS in sharia banks and pawnshops, including Islamic Finance Companies.
3. The title of POJK 77/2016 as it relates to the Financial Technology-Based Money Lending Services, defines a loan as a contract awarded by *Al Qardh* whereas the one that frames the legal relationship between the parties in sharia fintech is in accordance with the principles of *wakalah*, mudharabah, musyarakah and murabahah. Furthermore, supposing OJK issues a special Financial Services Authority Regulation for sharia fintech, it is incorrect to use the term "loan" rather than financing needs to be used because it simply implies the provision of funds or its equivalent. Based on the aforementioned explanation, the comparison between the conventional and sharia lending fintech is reported in table 2.

Table 2. Comparison between Conventional Fintech Lending and Fintech Lending based on sharia principles

No	Information	Fintech Lending Conventional	Fintech Lending Sharia
1	The Legal Basic	Financial Services Authority Regulations Number	Fatwa DSN-MUI Number 117/DSN-MUI/II/2018 Concerning Information

[23] Usanti, Thalib, and Setiawati, "Sharia Principles on Information Technology-Based Financing Services."
[24] Umam, "PELARANGAN RIBA DAN PENERAPAN PRINSIP SYARIAH DALAM SISTEM HUKUM PERBANKAN DI INDONESIA."

		77/POJK.01/2016 Concerning Information Technology-Based Lending and Borrowing Services	Technology-Based Financing Services
2	The parties	1. The Organizer 2. The Lender 3. The Loan Recipients	1. The Organizer 2. The Lender 3. The Loan Recipients
3	The Agreement	1. Power of attorney agreement between the lender and the operator 2. A loan and loan agreement between the lender and the loan recipient	1. Principle of wakalah bi al-ujrah between antara financier with organizer 2. The contract that frames the legal relationship between the parties includes: Islamic Principles.
4	Advantages in providing information technology-based Financing Services	The operation of information technology-based Financing Services can agree on an interest rate as an advantage	The organizer of Information technology-based Financing Services must not conflict with Sharia principles.
5	Supervision	Financial Services Authority (OJK)	Financial Services Authority and Sharia Supervisory Board

Risk associated with Sharia Lending Fintech

All parties associated with an Islamic fintech system portray inherent enormous risks particularly cyber related, in addition it exhibits the weak legal protection bound to its transactions. The essence of legal protection is to ensure all parties are secured particularly the fund givers. Several risks associated with Islamic fintech and they are as follows:[25]

Cyber risk

Cyber risk is inherent to any transaction based on information technology or the internet. Islamic fintech illustrates its magnitude, particularly those related to cyber risks, known to be extremely weak in legal protection and law enforcement. Risk mitigation is also one of the legal protections that is absolutely important in safeguarding these parties, particularly the funders. Subsequently, in order to prevent and overcome all these risks, certain legal components that serve as elements in its framework as well as preventive and repressive mitigation efforts

[25] Usanti and Silvia, "THE CHARACTERISTICS OF PRUDENTIAL PRINCIPLE IN ISLAMIC FINANCIAL TECHNOLOGY IN INDONESIA."

include regulatory sandbox, risk management in Islamic fintech, oversight function by authorized institutions, as well as the legal protection of the parties when there are discrepancies in the contract, it is also necessary to regulate the liability, sanctions or compensation (*dhaman al aqd*).

Shariah or Legal Compliance Risk

Lack of regulations and literation of Islamic fintech led to the emergence of sharia or legal compliance. The existence of Muslim compliance with sharia as a binding legal rule is recognized as their primary tasks throughout the globe. However, its application is only constrained when it is supported by the social and political systems in the interests of Muslims. On the contrary, sharia tends to be faced with an enormous and firmer manipulation of legal and socio-political interests. This is in accordance with Feener's statement, which stated that:[26]

Sharīa is particularly powerful in providing such binding rules of conduct because it is a sufficient abstract notion that appeals to any Muslim on a certain level. However, under this broad assent, there are immense spaces for the elaboration of specific positions on a wide range of social and political—as well as religious—issues. This type of situation allows the possibility for the manipulation of certain powerful interests.

a. Financing Risks

The following are some credit or financing risks which are likely to be encountered by Islamic fintech funders during cooperation:

a. Business failure and investment losses.

In most budding businesses, people lack the experience, knowledge, and entrepreneurial skills in the early stages, thereby resulting in failure. However, there are also UMKM business actors or start-up businesses that succeed in offering multiple benefits to fund providers. This simply means that the funder is more likely to lose than to realize a profit.

b. Unspent profits

Furthermore, supposing the MSME or start-up businesses succeed in making a profit, they unintentionally use it to expand their businesses, thereby leading to a long lag before the actor disburses the profits to the funder.

c. Additional capital.

Conversely, when a start-up business or MSME is successful, it usually requires additional capital, causing the actor to carry out an advanced capital search campaign. As a result of the additional capital needed by the business, the proportion of profit-sharing from the initial funder is divided by the next fund provider.

It is important to note that the possibility of encountering certain problems during the refund process need not be ruled out. Moreover, efforts are needed to minimize the risk of default.

[26] Feener, "Social Engineering Through Shari'a: Islamic Law and State-Directed Da'wa in Contemporary Aceh."

Based on the efforts of legally established financial institutions, the risk management that needs to be implemented by banks is credit analysis. Subsequently, some of the aspects that need to be analyzed are management eligibility, the economy, industries, marketing techniques, finance, law, collateral, determination of credit structure, and terms.[27] The Fintech Lending also needs to implement the risk mitigation stipulated in the Attachment of the Financial Services Authority Circular Letter No.18/SEOJK.02/2017 regarding Governance and Information Technology Risk Management in Information Technology-Based Lending and Borrowing Services. The organizer that carries out identification, valuation, and risk mitigation needs to at least consider the following:

a. Assets owned;
b. The implementation of business processes;
c. Data classification and information;
d. Acceptable risk limitation; and
e. Determination of impact assessment and possible risks.

In the Conventional Lending Fintech which is also known as *Credit scoring*, is the system or method adopted by a financial institution or bank in determining whether or not the individual or group is eligible to receive the loan. Transaction *history* such as proper bill payment or the amount of credit are said to be a determinant *of credit scoring*.[28]

Berkah Fintech Sharia Company is a lending firm authorized by OJK and has already been registered since October 30 2019. This company engages in the provision of money to be lent to the community at large by electronic means. Berkah Fintech Sharia is one of the products of fintech which offers financial services by adopting a technological basis without having to hold a meeting involving the parties and prioritizing sharia principles. It is an institution established based on the Law of Indonesian Republic. In addition, it was also established as one the companies regulated by POJK Fintech, the Company provides interfacing services as the party liaison which gives the fund and the one that needs it namely individuals, organizations, or the law institutions,[29] which is reported as follows:

Business Risks	**Financial risk**	**Corporate governance risk**
a. Industrial profile (namely industry's competitive environment, profitability, life cycle / growth potential,	a. Cash flow b. Operational Cash Flow c. Capital structure d. Liquidity	a. Capital structure b. Strategy of Company c. Company Business Plan

[27] Ikatan Bankir Indonesia, ***Tata Kelola Manajemen Risiko Perbankan***.
[28] Ramadhani, "Pentingnya Mengetahui Apa Itu Credit Scoring."
[29] PT. Berkah Finteck Syariah, "Berkah Fintek Syariah."

economic sensitivity, and regulatory risk) b. Company Profile (namely measure "in terms of annual sales, historical profit, operating track record, differentiation) c. Management (namely experience, risk profile, risk mitigation)		d. Financial Statements (on the audit or not on the audit)

Open the campaign of fund for seller of PT RAM's fourth LPG gas. The repayment of the previous 3 (three) campaigns, Alhamdulillah, was smooth and always on time. The first funding campaign of RAM has paid off as of date 12 March 2020, the second RAM has paid off June 19 2020, and the third RAM still not yet due date. This is the same such as previous funding campaign, to funding of fourth RAM needs fund to buy LPG gas/ filling tubes to be sold to consumers. The payment to donor implements gradually, as illustrated below:

Payment	**Financial**	**Amount of Financing required**	**Profit Margin**	**Tenor**	**Risk Mitigation**
End of Month 1: 10% End of Month 2: 10% End of Month 3: 40% End of Month 4: 40%	Murabahah Principle	Rp. 846.000.000,-	Sebesar 4.5 %	4 bulan	1. Personal guarantee from the directors and commissioners. 2. Bilyet giro worth 120% of the payable obligation.

Besides, embodiment of endeavor in sharia fintech except circumspection in giving the fund to recipient is based on the existence of Sharia Supervisory Board (DPS). According to Article 3 regulation of Organization of the Indonesian Ulama Council No Kep-407/MUIIIV/2016 Concerning the Articles of Association and Bylaws of the National Sharia Council-Indonesian Ulama Council (the subsequent one is referred to as the articles of Association DSN-MUI) carrying out the following tasks:

(1) DPS tasks include:

a. Overseeing the product and business activities of LKS, LBS and LPS in accordance with the regulations of the sharia principals stipulated DSN-MUI;
b. Ensures opinions, requests, inquiries or findings are carried out by the supervisory institution; and
c. Reports the results from the supervision to DSN-MUI twice in a year.
(2) DPS Authority are:
a. Offers advice and suggestion to commissioners, directors, head of sharia business units and branch managers of LKS, LBS, and other LPS related matters;
b. It serves as a mediator between LKS, LBS, and LPS in communicating the proposals and suggestions of the development of business activities in the form of products or services to the consumers based on a study and fatwa from the DSN-MUI;
c. Warns the directors of LKS, LBS, and LPS to implement efforts to stop sharia deviations; and the right to report to the relevant authorities.

(3) In carry out these duties and authorities, DPS is entitled to have equipment in its work units that are coordinative with LKS, LBS, and other supervised LPS.
The position and function of DPS in DSN-MUI are simply regulated in the Articles of Association therefore; its operation is in accordance with Islamic work ethics. The supervision was created based on the obligation to establish SSB in every Sharia financial institutions. It is mandated that every product and new service Sharia financial institutions obtain their halal fatwa first from the National Sharia Council-Indonesian Ulama Council (DSN-MUI).
The primary functions and tasks of DPS as stipulated in the Decree of the National Sharia Council of the Indonesian Ulama Council No 2 of 2000 concerning DSN-MUI, is reported as follows:

a. Offers advice and suggestion to directors, head of sharia business units and branch offices of financial institutions related to issues concerning sharia.
b. Implementation of either active or passive supervision, particularly in the DSN based on the direction or supervision of products or services as well as business activities in accordance with sharia principles.
c. It also serves as a mediator between sharia financial institution and DSN by communicating the suggestions for the development of products and services from sharia financial institutions which needs to be analyzed as well as fatwas from the DSN.

DPS has similar functions as DSN representatives assigned to Islamic financial institutions and they are required to:

a. Adopt Fatwa DSN
b. Formulated issues requiring DSN attestation
c. Report business activities in order to improve the Islamic financial institutions supervised by DSN at least once a year.

Moreover, the independence of DPS in carrying out its supervisory functions on the activities of sharia financial institutions is influenced by the marketed products or services or implemented roles in accordance with the sharia principal, while the assessment of work results are the observation of the processes expressed in the form of decisions regarding the success and failure in carrying out their duties.

CONCLUSION

The characteristics of Sharia Fintech includes business activities that does not promise usury, gharar, maysir, tadlis and dharar, as well as principles which frames the relationship of the parties namely *wakalah bi al-ujrah, akad al-bai', ijarah, mudharabah, musyarakah, wakalah bi al ujrah, and qardh*. In addition, the supervision is carried out by the Sharia Supervisory Board besides the Financial Services Authority. The application of this principle is to endeavor that the Sharia Fintech carries out its analysis with credit scoring implemented by the organizer before it gives fund to the recipient. The existence of Sharia Supervisory Board is influenced by the marketed products or services, including activities in accordance with sharia principals.

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