SHARIAH AUDIT IN INFORMATION TECHNOLOGY SYSTEMS FOR BUY NOW PAY LATER (BNPL) PLATFORMS: A STUDY ON COMPLIANCE, GOVERNANCE AND IMPLEMENTATION

Najma Athirah Mohammad Shafie[1,a], Zurina Shafii[2,a,b*], Muhammad Ilyas Ariffin Abu Bakar[3,a]

[1,a]*Post-graduate candidate. Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia, 71800, Nilai, Negeri Sembilan*

[2,a]*Professor, Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia, 71800, Nilai, Negeri Sembilan*

[2,b]*Research Fellow, Islamic Finance and Wealth Management Institute, Universiti Sains Islam Malaysia, 71800, Nilai, Negeri Sembilan*

[3,a]*Post-graduate candidate. Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia, 71800, Nilai, Negeri Sembilan*

*Corresponding Author: *zurina.shafii@usim.edu.my*

Abstract: *The rise of Shariah-compliant Buy Now Pay Later (BNPL) services in Southeast Asia, especially Malaysia and Indonesia, has reshaped consumer financing by offering flexible, interest-free instalment plans through digital platforms. BNPL enables consumers to postpone payments without using credit cards and is frequently incorporated into mobile apps. From the standpoint of Islamic finance, this raises moral and legal questions as it encourages spending and financial access. The majority of BNPL platforms use automated information technology (IT) systems that manage collections, fees, payments, and approvals without requiring human input. This raises the possibility of incorporating riba (interest), gharar (uncertainty), and unethical charges into the system design. Through an analysis of digital contracts, system logic, and fund flows, this study investigates how BNPL operations can be in line with Shariah governance. It draws attention to issues like ambiguous contracts and automatically applied fees by drawing on scholarly research, regulatory updates, and actual cases like Shopee SPayLater and Ammana Fintek Syariah. Additionally, it looks at how Shariah board supervision, audit trails, and smart contracts can help with Shariah compliance. The study emphasizes the necessity of an integrated audit framework as well as the standard-setting function of Malaysia's impending Consumer Credit Act (CCA).*

Keywords: micro credit, fintech, Shariah audit

1. Introduction

Platforms known as Buy Now Pay Later (BNPL) are quickly changing how customers think about short-term financing. BNPL has begun to be a desirable substitute for traditional credit facilities by enabling people to buy purchases and pay back in interest-free installments over a predetermined time period, particularly among younger, tech-savvy populations. Because of their easy integration with e-commerce ecosystems and user-friendly mobile applications, platforms like Shopee SPayLater, Atome, AiraPay, and Grab PayLater have become more popular in Malaysia in recent years.

However, because BNPL systems are digitally automated, this financial innovation presents serious Shariah compliance issues. Many of the opaque contractual arrangements, automatic late fines, and algorithmic credit approvals used by these companies may unintentionally violate Islamic financial norms. When fees or payment terms are not directly linked to actual economic activity or underlying items, there is a risk of *riba* (interest), *gharar* (uncertainty), lack of transparency, and ambiguity in ownership. Shariah concerns have become embedded in the design of IT systems rather than just in paperwork as a result of the digitization of financial activities. In order to assess whether the design, operation, and automation logic of BNPL platforms adhere to Islamic jurisprudence, this study adopts the Shariah audit lens. It looks at the governance of backend systems, smart contracts, and user flows in addition to basic product offerings.

The study investigates the degree to which Shariah principles such as legitimate contracts (aqd), the lack of excessive risk, pricing transparency, and treating customers fairly are applied in BNPL's digital infrastructure by examining real-world examples like Shopee SPayLater (Malaysia) and Ammana Fintek Syariah (Indonesia). The study also emphasizes the growing necessity of cooperation between Shariah auditors and IT, as well as the possible contribution of Malaysia's impending Consumer Credit Act (CCA) to the formalization of moral guidelines for online lending platforms.

Despite the fact that many BNPL platforms claim that they adhere to Islamic principles, Shariah compliance tools are frequently absent from their system architecture. Non-compliant results, including the imposition of late payment costs that resemble interest or the failure to create appropriate contractual connections prior to the delivery of goods or services, can be produced by automated procedures. Conventional Shariah audits often ignore how the technology functions in real-time operations in favor of documentation and advisory opinions. Strong, IT- integrated Shariah audits are urgently needed as Malaysia gets ready to adopt the Consumer Credit Act (CCA), which would establish supervisory procedures for BNPL providers.

The final aim of the study is to close the gap between Shariah integrity and technological efficiency, making sure that fintech innovations stay inside the bounds of Islamic finance. Maintaining customer confidence and respecting maqasid al-Shariah in contemporary financial systems requires a thorough Shariah audit strategy that includes both technical and financial inspections by proposing the Shariah audit scopes BNPL IT system audit.

2. Literature Review

According to the literature, BNPL platforms carry a number of Shariah non-compliance risks, especially when it comes to the way their digital systems automate transactions and contract enforcement. BNPL models are frequently promoted as easy to use and convenient, but they can be unethical when system logic goes against Shariah rules, such as the need for clear, legitimate contract structures, the prohibition of riba (interest), and gharar (uncertainty).

Many BNPL providers in Malaysia charge late fees that are neither cost-based nor capped, which raises questions about riba (Zainudin and Othman, 2023). They contend that the platform may profit from debt when fees are assessed using automated triggers without taking hardship or actual losses into account a practice that is strictly prohibited in Islamic finance.

Comparably, the IFHUB Q3 2022 report highlights the potential risks of employing agreements such as *tawarruq* or *murabahah* without guaranteeing ownership registration or asset transfer. These procedures are frequently skipped over or concealed in system backends in digital environments. *Gharar* and *bay' batil* (invalid sale) are made possible by the system's lack of clear records of ownership trails or contract formation (such as timestamps of ijab and qabul).

The Law Majalla also criticizes how digital BNPL platforms affect hifz al-mal, or wealth protection, warning that automated approvals lack of affordability checks may result in debt accumulation and compromise Shariah maqasid. Since these risks are system-based, they cannot be eliminated unless ethical boundaries are incorporated into the IT architecture.

This emphasizes the significance of designing systems in accordance with Shariah, wherein front-end disclosures, backend coding, and contract automation must all adhere to the letter and spirit of Islamic law. Otherwise, the way their systems carry out those contracts may cause even platforms with legitimate contract names to break Shariah.

2.1 Legal Framing and Maqasid Shariah for BNPL

Zainudin and Othman (2023) point out that there is not enough legal clarity around BNPL plans, especially those that aren't registered under any consumer credit rules. These platforms work online and offer payment plans that can be put off, but it's not clear what kind of legal agreement they belong to. This lack of clarity puts both compliance and enforcement at risk. The authors are worried that many BNPL providers charge late fees and processing fees without following the rules of a Shariah-compliant contract. If these fees are based on interest or calculated using compounding rates, they could be considered riba, which is against Islam.

"The current unregulated nature of BNPL could potentially allow unjustified financial charges and debt burdens, raising Shariah compliance concerns" (Zainudin & Othman, 2023).

Zainudin and Othman (2023) mostly discuss about legal framing, but it also calls for systemic governance, which should include automated monitoring tools and transaction filters that follow Shariah law. This study goes into more detail about this.

In term of Shariah supervision through Bank Negara Malaysia's regulations, BNPL platforms in Malaysia must set up a Shariah Committee (SC). In reality, though, this oversight frequently stays procedural and unrelated to the platform's IT infrastructure. In contrast, Ammana Fintek Syariah and Indonesia's Dewan Pengawas Syariah (DPS) take a more integrated approach, incorporating digital Shariah checks into both contract approvals and real-time monitoring. The fundamental idea is the same, where Shariah oversight ought to be incorporated into the system architecture, even though the governance terminology varies (SC in Malaysia and DPS in Indonesia). As BNPL platforms grow through automation and digital transactions, this becomes more and more crucial. This highlights the need for Malaysian platforms to move beyond static approvals and adopt IT-driven Shariah governance frameworks that support continuous, automated compliance.

The absence of system-based Shariah governance is a significant weakness in Malaysian BNPL operations. The majority of platforms skip continuous digital reviews as they only approve during the setup stage. Effective compliance requires:

i. Approval checkpoints before launching or modifying BNPL offerings
ii. Role-based system access for Shariah reviewers
iii. Automated audit logs to monitor the behaviour of the system over time.

By incorporating these elements, the Shariah Committee's function would change from that of a passive reviewer to that of an active governance partner, facilitating ongoing compliance and risk mitigation. Nur Iman Eirfan (2024) looks at BNPL from the philosophical point of view of maqasid al- shariah, especially hifz al-mal (preservation of wealth). The author argues that digital BNPL systems that lack ethical guidelines make people buy more, spend more, and build up debt without anyone paying attention. From a Shariah point of view, any system that doesn't check how much a consumer can afford and how likely they are to pay back their debt, especially one that is built into mobile apps, goes against this goal. It is possible for deferred payments to be halal in form, but the system's design must be in line with financial dignity and risk prevention in terms of its purpose and impact.

2.2 IT Architecture & Smart Contracts in Shariah-Compliant BNPL

Smart contracts, which are digital agreements that self-execute when certain conditions are met, may be compatible with Islamic contract law, according to recent research by Ahmad et al. (2024). They stress how crucial it is to make sure:

i. Contractual autonomy, in which the parties voluntarily sign the agreement,
ii. Execution that is impervious to tampering, in order to avoid manipulation,
iii. transparent language that accurately conveys every aspect of *qabul* and *ijab.*

For BNPL platforms that automate deferred payments or instalment sales, these guidelines are crucial. A well-designed system should guarantee that consent is digitally recorded, timestamps are saved, and terms cannot be altered after acceptance. This guarantees accountability and reduces *gharar.* Therefore, the implication is that as long as smart contracts uphold transparency, delivery, and pricing integrity, they can be a useful tool for formalizing Shariah- compliant agreements like *bay' muajjal* and *ijarah.* Extra caution is required for more intricate arrangements, such as *tawarruq*, to guarantee authentic asset transfer and prevent pointless formality.

Shariah compliance in BNPL ought to be actively incorporated into the platform's system logic rather than just existing on paper. This entails automating the offer, acceptance, delivery, and payment phases of a contract while maintaining clear and unchangeable terms once they are accepted. In accordance with AAOIFI and DSN-MUI guidelines, the system must also enforce ethical fee structures by capping charges and redirecting late fees to charity.

Nur Iman Eirfan (2024) and Wiguna (2020) cautioned against ambiguous language and hidden costs that can result in *riba* and *gharar*. IT systems should have Shariah-based filters and alerts to identify transactions that are not in compliance, like those involving interest-bearing fees or prohibited items, in order to stop this. By guaranteeing real-time compliance enforcement, rule- based programming can lessen unethical practices, according to a 2019 study on smart contracts. So, the implication here is platforms must shift from reactive audits to proactive system-based Shariah governance. For both governance and auditing purposes, the article recommends hardcoding automated affordability algorithms, spending alerts, and behavioral nudges to encourage responsible use into BNPL IT platforms.

Shariah logic can be integrated into digital systems, as demonstrated by Shopee's transformation of its SPayLater platform, which was featured in the article by Abas & Yahaya (2023). A Bay' Mu'ajjal structure with fixed ujrah-based service charges and limited penalty application replaced the platform's previous percentage-based late fees. These modifications were technical in nature, involving modifications to system workflows and backend rules, in addition to being legal.

Wiguna (2023) discusses Ammana Fintek Syariah, which is even more reliable and requires Dewan Pengawas Syariah (DPS) validation for each financing campaign. In order to reduce human error and guarantee real-time Shariah compliance, risk profiling, project classification, and investor eligibility are automated and coded straight into the system. Instead of being a post-hoc review object, this proactive approach demonstrates how IT systems can support Shariah governance.

In fintech applications the traditional purpose of a Shariah audit, which is restricted to examining contracts and policies, is insufficient. Both the Yuridika and Law Majalla articles demonstrate how system behavior platforms automate contract execution, fee calculations, and even default protocols without ethical oversight is increasingly causing compliance gaps rather than contractual intention.

Cross-disciplinary audit teams are necessary, as demonstrated by these examples; Shariah scholars, IT experts, and financial auditors must collaborate to make sure platforms are not only Islamically valid in terms of contract structure but also in terms of how they implement those structures in real-time using logic and code.

2.3 Shariah Contracts in BNPL Platforms: Case Study in Shariah Transition

In Malaysia, Ijarah is often paired with Ijarah Thumma al-Bay' (AITAB), a lease-to-own model where ownership is transferred after all instalments are paid. When it comes to BNPL, users make fixed monthly payments, and after payments are paid off, ownership may be transferred through a different sale contract.

One of the most important contracts for structuring BNPL services that adhere to Shariah is Ijarah. Ijarah is essentially a lease agreement in which the client pays for the use (usufruct) of a good or service for a specified amount of time. As the lessor, the BNPL provider grants the customer (lessee) the right to use the asset while maintaining ownership. In order to avoid riba, payments are made on a regular basis and are not regarded as loan repayment.

The BNPL platform needs to make sure the digital contract logic complies with Shariah from an IT standpoint. This entails avoiding interest-based dynamic pricing, capturing ijab and qabul (offer and acceptance), and making sure that late payment fees represent true administrative expenses rather than profit. A practical illustration of transitioning from a conventional to a Shariah-advised BNPL platform is provided by Shopee SPayLater. Shariah issues were first raised by the platform's recurrent percentage-based fees and penalty charges. Shopee reorganized its service to adhere to Shariah principles after receiving advice from Amanie Advisors. Among the major revisions were:

i. Using flat late fees in place of compounding fees
ii. Introducing fees based on ujrah that are connected to authentic services
iii. Transferring gharamah (penalty collections) to nonprofit organizations
iv. Using a bay' muajjal contract to implement structured deferred payments
v. Ensure fee calculations and payment terms adhere to pre-approved Shariah logic by integrating the new terms into the IT backend

"SPayLater is now considered Shariah-compliant with limitations, using Bay' Mu'ajjal and a fee-capped ujrah structure" (Abas & Yahaya, 2023). This example demonstrates how IT systems need to be examined for embedded compliance logic in addition to accuracy, which is crucial for Shariah auditing.

Peer-to-peer financing platform Ammana Fintek Syariah in Indonesia incorporates Islamic contracts like murabahah, wakalah, and mudharabah into its digital platform. The Dewan Pengawas Syariah (DPS), which examines the legality of business operations, must approve all projects and financing initiatives. Smart contract logic built into the system restricts financing to only halal-compliant operations. Investors must complete risk profiling prior to participation, and IT processes guarantee that funds are only released when requirements are fulfilled. Ammana Fintek Syariah's operational model shows how Islamic fintech platforms can go beyond passive Shariah compliance by embedding pre-transactional controls within their IT infrastructure. Wiguna (2023) notes that all investors are required to undergo a risk profile test and select only projects that are supervised by internal Shariah boards. This means that the entire investor journey is filtered by automated governance, which blocks access to non-Shariah-compliant opportunities at the system level. By doing this, Ammana shifts Shariah audit from a post-event activity to a built-in mechanism of enforcement. Each project is linked to internal DPS review, and IT modules are used to monitor financing limits, project type, and halal certification.

Wiguna (2020) examines BNPL platforms using conventional Islamic contract law, emphasizing the need for ethical system design, transparency, and a clear offer and acceptance (ijab and qabul). It draws attention to the fact that many BNPL systems have inadequate contractual frameworks and can introduce riba and gharar (uncertainty) through ambiguous penalty terms and hidden costs. The authors warn that the economic substance of Shariah contracts is undermined when simulated tawarruq is used to justify profit without real asset transfers.

Wiguna's 2020 study also highlights how crucial the Shariah Supervisory Board (SSB) is for monitoring the design of IT systems and making sure that contractual procedures, penalty logic, and disclosure mechanisms are all ethically integrated, in addition to reviewing products at the product level. This supports the need for Shariah governance to be programmed directly into BNPL platforms rather than added post-launch.

3.0 Shariah Audit for BNPL IT System: Challenges and Proposed Scopes

Current regulations in Malaysia and Indonesia are insufficient for overseeing modern Islamic fintech activities. The Islamic Financial Services Act 2013 (IFSA) in Malaysia focuses mainly on traditional Islamic banking. It does not clearly address technologies like blockchain, robo-advisors, or smart contracts (Ilyas et al., 2020). Likewise, Indonesia's POJK No. 77/2016 does not mandate Islamic P2P platforms to follow a certified Shariah governance process (Trisadini et al., 2023). This legal gap creates ambiguity and inconsistency in fintech operations. Without proper regulation, Islamic fintech firms operate without clear guidance on Shariah auditing standards, which may lead to non-compliance with core Islamic principles.

Fintech platforms often target underserved populations, including Muslims who avoid conventional finance due to religious concerns. However, the lack of proper Shariah audits and regulatory oversight can result in mistrust, fraud, or participation in impermissible contracts unknowingly (Fatimah & Dewi, 2020). To build trust, scholars argue for proactive Shariah assurance, which includes automated compliance checks, digital dashboards for users to track Shariah status, and transparency tools that explain how contracts meet Islamic principles (Ghazali & Abdul Aziz, 2021).

Expected to have a major impact on Shariah governance and digital system design, the upcoming Consumer Credit Act (CCA) seeks to close current oversight gaps, especially in the rapidly expanding BNPL sector. The creation of the Consumer Credit Oversight Board (CCOB), which will oversee non-bank credit providers, including Islamic BNPL operators, is one of its major advancements. The CCA is expected to establish mandatory Shariah governance requirements for Shariah-compliant platforms, such as the creation of Shariah audit reports, the adoption of formal Shariah governance frameworks, and the appointment of Shariah advisors.

Digital lenders, including BNPL providers, are anticipated to be governed by Malaysia's upcoming Consumer Credit Act (CCA). Although the law is not exclusive to Islamic finance, it offers an important opportunity to formalize ethical values that are consistent with Shariah, like openness, equity, and safeguards against exploitative debt.

BNPL schemes currently function in a grey area with minimal regulatory oversight, as mentioned in the Islamic Finance News (2022) article. This enables certain providers to disregard consumer protections, impose unpredictable fees, and conceal terms in complicated user interfaces. Providers may be asked to demonstrate ethical lending practices, conduct affordability assessments, and provide clear repayment terms as a result of the CCA's implementation all of which support Shariah goals.

More significantly, by mandating that digital BNPL platforms keep system logs, disclose pricing algorithms, and undergo external reviews as tools essential for effective Shariah compliance assessment, the CCA can actively support Shariah audit functions. From an IT standpoint, this might translate into a legal requirement to incorporate Shariah checks straight into digital infrastructure, including automated audit trails that Shariah committees can access, transparent pricing algorithms, and smart contract validation mechanisms. In Malaysia's BNPL landscape, the CCA may act as a regulatory catalyst to bring IT systems into compliance with Shariah governance.

Another key issue is the lack of technical expertise among Shariah auditors. SAC members and Shariah Supervisory Boards often have strong backgrounds in Islamic law but are unfamiliar with digital systems. As a result, they may overlook critical technological elements such as algorithm transparency, data flows, and automated contract execution (Ilyas et al., 2020). Moreover, in Indonesia, many Islamic fintech platforms do not even have a designated Shariah board, and rely only on fatwa references without a structured review process (Fatimah & Dewi, 2020). This situation undermines consumer trust and leaves digital transactions open to hidden riba or gharar.

Several studies recommend the adoption of modern IT audit frameworks, such as COBIT 5, ISO/IEC 27001, and NIST, to improve the audit process. These tools are widely used in conventional IT governance and offer strong controls for risk management, system security, and process integrity. Ghazali and Abdul Aziz (2021) propose that Shariah audit teams should adapt these tools to assess not only financial data but also system behavior, contract automation, and data privacy in line with Islamic ethics. However, practical integration models between Shariah auditing and IT frameworks are still underdeveloped.

3.1 Five Critical Audit Scopes for Fintech Applications

From the literature, five audit scopes emerged as essential for a Shariah-compliant audit of fintech platforms:

i. Shariah Governance: Auditing whether the platform has a certified Shariah Board, documented policies, and compliance protocols (Ghazali & Abdul Aziz, 2021).

ii. Shariah Compliance: Ensuring that all digital contracts (e.g., murabahah, wakalah, qardh) align with fatwas and do not contain riba, gharar, or unethical clauses (Trisadini et al., 2023).

iii. Digital Transaction Integrity: Verifying whether smart contracts or automated platforms execute contracts according to agreed Islamic terms, without manipulation or delay (Usanti et al., 2023).

iv. System Security and Data Ethics: Checking that user data is protected and processed ethically, with transparency and consent, as required under fiqh muamalat (Fatimah & Dewi, 2020).

v. Product and Service Structure: Assessing whether fintech offerings are clearly structured using valid Islamic financial models, especially in P2P, crowdfunding, or e-wallet platforms (Laldin & Djafri, 2019).

With the help of these tools, compliance will be moved from post-transaction audits to real-time system enforcement, such as:

i. Contract Authentication: Ensure that all contracts executed through the system reflect valid Shariah structures and include digital ijab-qabul.

ii. Transaction Monitoring: Incorporate automated flags for potential non-compliance such as interest-like penalties or ambiguous pricing.

iii. Data Transparency: Design dashboards that allow Shariah auditors to access, review, and track transactional history.

iv. Governance Integration: Provide real-time access to Shariah advisory boards and enable them to review contract templates and workflow logic. This brief framework can help Malaysian BNPL platforms meet upcoming regulatory expectations under the Consumer Credit Act and align operations with core Shariah principles.

4.0 Conclusion

The BNPL ecosystem in Malaysia is growing rapidly, but this expansion creates new challenges for maintaining Shariah compliance. The current absence of integrated audit mechanisms in IT systems raises questions regarding the consistency and integrity of Shariah compliance, even though many providers claim that their products are compliant.

This study examined the adaptation of Shariah contracts, such as *ijarah* and *wakalah*, into BNPL structures and the importance of system-level features for compliance, including digital *ijab* and *qabul*, smart contract logic, transparent pricing, and audit logs. Malaysia can learn a lot from Indonesia's Ammana Fintek Syariah's real-time Shariah oversight, particularly in terms of integrating governance into digital platforms.

Based on the review of selected academic articles, it is clear that current regulations in Malaysia and Indonesia are not yet fully prepared to handle the unique risks and requirements of Islamic fintech. Key issues include a lack of detailed Shariah auditing procedures for digital systems, insufficient technical expertise among Shariah auditors, and gaps in consumer protection. To address this, researchers have proposed integrating conventional IT audit tools like COBIT 5 into the Shariah audit process.

The study identifies five important audit scopes: governance, compliance, transaction integrity, system security, and product structure. These areas should be the focus of any future Shariah audit framework for fintech platforms. In conclusion, to build trust and ensure that Islamic fintech remains ethical and Shariah-compliant, it is important to develop a hybrid auditing model that combines traditional Shariah review with modern digital auditing practices.

It is anticipated that the upcoming Consumer Credit Act (CCA) will codify Shariah governance requirements, giving Islamic BNPL providers the regulatory impetus they need to modernize their systems. In the future, Shariah audit needs to move from approvals on paper to ongoing, automated monitoring that is integrated into the IT architecture itself. The move is a step toward enhancing trust and transparency in Islamic digital finance in addition to being required for compliance.

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Appendix A: Applicable Shariah Concepts in BNPL Transactions

Source: IFHUB 3Q2022. Retrieved from https://muzakarah.inceif.edu.my/kertas-kerja-slide/bacaan-tambahan/IFHUB_3Q2022.pdf

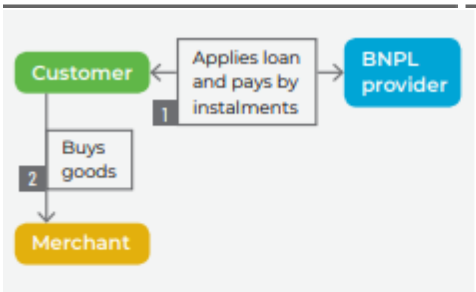

Figure 1: *Qard*

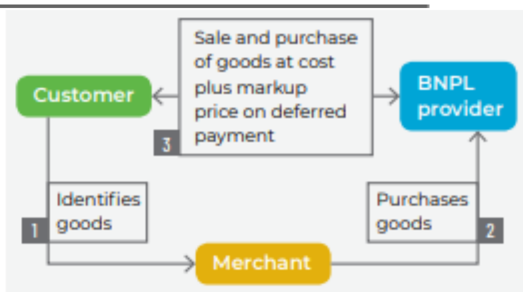

Figure 2: *Murabahah*

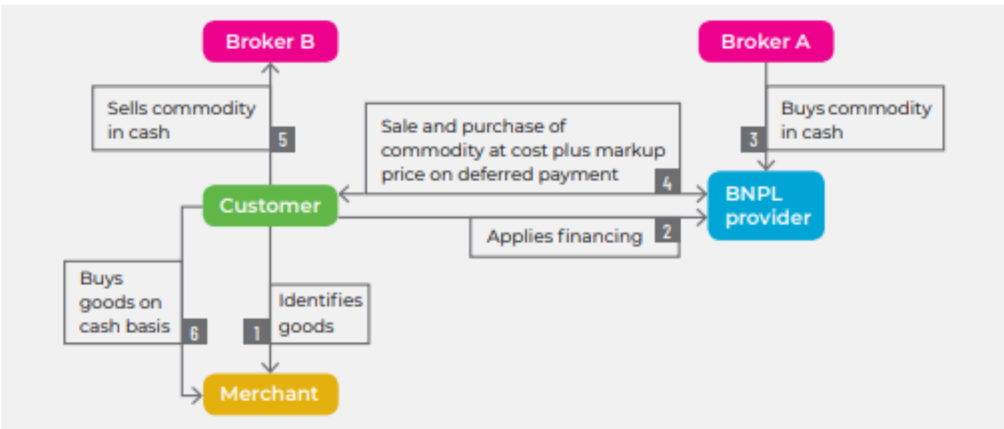

Figure 3: *Tawarruq*

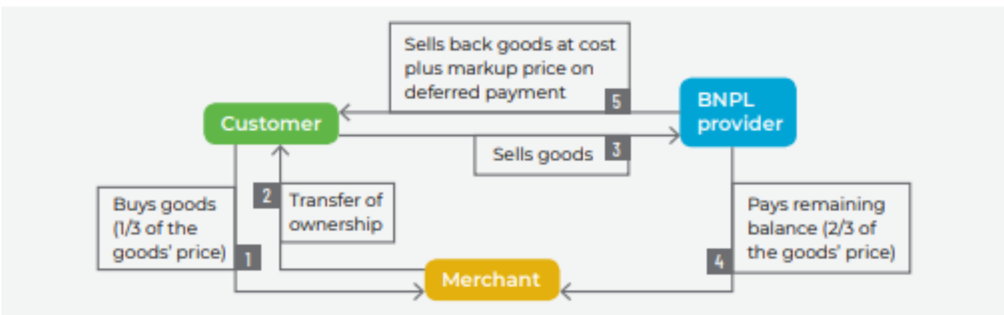

Figure 4: *Bay' bithaman ajil*

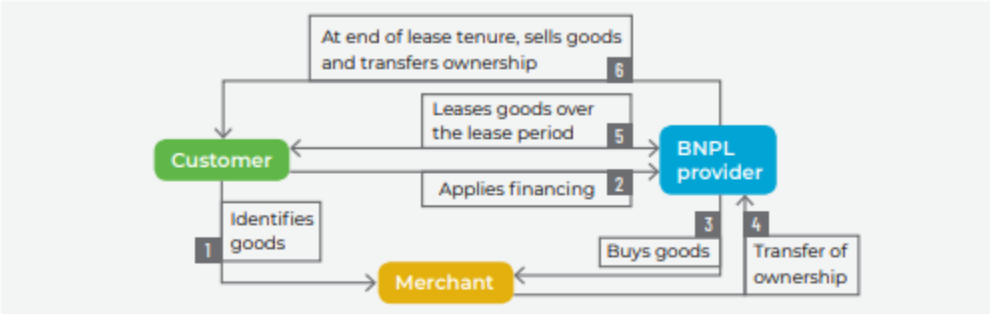

Figure 5: *Al-Ijarah Thumma al-Bay'* (AITAB)

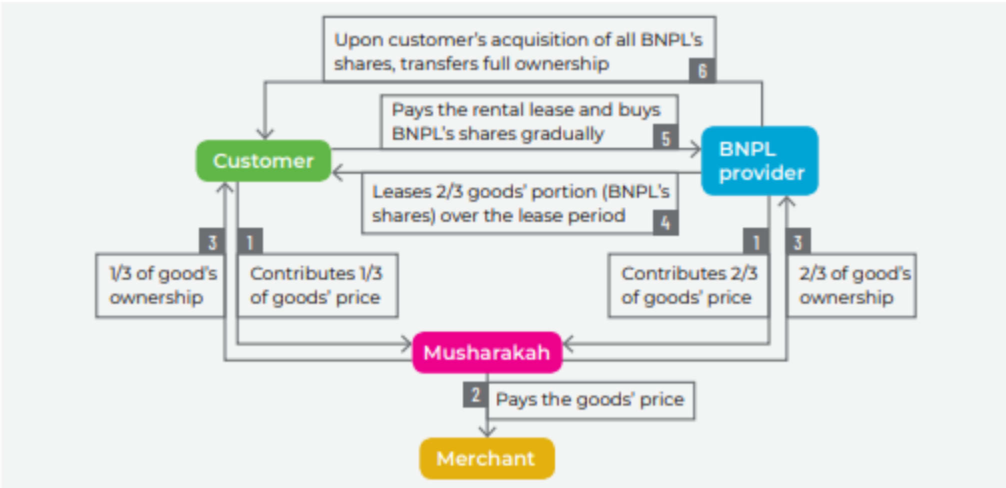

Figure 6: *Musharakah Mutanaqisah*