

Islamic Digital Banking Based on Maqasid al-Shariah for Financial Inclusion: A Proposed Framework

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Abstract: The expansion of information and communication technology (ICT) has confronted the banking and financial industry towards the era of digitalization. This digitalization has brought advantages to the people nowadays to make the banking transaction easier in term of time-saving and easy to access compared to over-the-counter transaction (at the branch), in which the people need to waste their time for waiting their turn to make a simple transaction like withdraw and deposit money and reaching the people who are unbanked in order to them enjoy the banking and financial products and services. In this context, as most of the community in Malaysia are Muslim, the regulator (Bank Negara Malaysia) needs to concern with the value of Shariah and the element of financial inclusion that should be adopted in the development of digital banking. So, this will lead to the development of Islamic digital banking based on Maqasid al-Shariah for financial inclusion that able to cater the current market needs. However, the model of Shariah compliant digital banking is important to be introduced in order to achieve the true spirit of Maqasid al-Shariah for financial inclusion. This article is aimed to develop a framework of Islamic digital banking based on Maqasid al-Shariah for financial inclusion. This research employs a qualitative approach as this research is conducted through interview with experts for the development and verification of the proposed framework. The proposed framework has been found to be feasible for the implementation in accordance with the ongoing advancements in the digital age.

Keywords: Islamic Digital Banking, Maqasid al-Shariah, Financial Inclusion, Proposed Framework

1. Introduction

The widespread adoption of information and communication technology (ICT) has brought about changes in a variety of industries all over the world, one of which is the banking and financial services sector. As of present day, banks and financial institutions had accepted the information and communication technology and had transformed their operation from offline to online operation due to the increased productivity and efficiency that was pushed by the changing technological landscape to meet the needs of their clients. Before this, the sole option for the customer was to conduct their banking and financial transactions through the respective bank branch. However, the transition into the digital era of banking and finance has been made possible by the proliferation of internet-capable smart devices such as smartphones, laptops, and tablets. These gadgets are the direct result of advances in technology.

In recent years, digital banking has gained popularity as an increasing number of individuals utilize online and mobile banking services.

Digital banking is the use of technology to provide consumers with financial services, such as online banking, mobile banking, and other digital channels (Mohsin et al., 2022). Convenience is one of the primary advantages offered by online banking. Customers have access to their accounts and may conduct transactions whenever and wherever they want thanks to online banking and mobile banking. Because of this, it is not necessary to go to a physical bank branch, which saves both time and effort. Customers might have an easier time keeping track of their financial affairs if they use the tools offered by digital banking services, which frequently include capabilities like bill pay, account alerts, and budgeting guides (Mbama, 2018).

In Malaysia, Islamic banks had been urged to react to digitalization of their operation in order to in line with current mainstream. It is occurred in order to fulfill the current need of Muslim people as most of the Malaysian community are Muslim. As they are concerned about the halal (permissible) transaction and haram (prohibition) transaction in Islam. Bank Negara Malaysia (BNM) has issued license to the Islamic financial institution to operate Islamic digital banking in Malaysia under the enforcement of Islamic Financial Services Act (IFSA) 2013. This is become the opportunity to the Islamic financial institution to develop a sustain Islamic digital banking (BNM, 2022). In accordance with the digitalization agenda, Bank Negara Malaysia (BNM) has also developed its Financial Sector Blueprint 2022-2026. The blueprint describes the strategic priorities and initiatives of the BNM to transform Malaysia's financial sector into a more efficient, inclusive, and technology-driven ecosystem. It acknowledges the crucial role that digitalization plays in enhancing financial services and assuring their availability to all segments of society. The Financial Sector Blueprint 2022-2026 emphasizes the importance of digital innovation and technology adoption in financial institutions, as well as the promotion of digital payments and financial inclusion, and the strengthening of cybersecurity and data protection measures. It intends to employ digital technologies such as artificial intelligence (AI), big data analytics, and blockchain to increase operational efficiency, enhance consumer experience, and broaden the range of financial products and services (BNM, 2021).

In addition, the Financial Sector Blueprint highlights the significance of collaboration between financial institutions, fintech companies, and other stakeholders in order to cultivate an ecosystem that supports innovation and digital transformation in the financial sector. Moreover, it emphasizes the significance of regulatory frameworks that encourage responsible digital innovation while preserving financial stability and consumer protection (BNM, 2021).

So, the rise of Islamic digital banking adoption become milestone to community in Malaysia toward digitalization of banking and financial services and also become a solution for the financial inclusion as prescribed by BNM that the development of Islamic digital banking should adopt the element of financial Inclusion in order to alleviate poverty among unbankable or underserved population in Malaysia. As it can be perceived, Islamic digital banking represents a modern manifestation of Islamic finance, combining the principles of Islamic banking with the convenience and efficiency of digital technology. It has emerged as a significant and transformative force in the global financial landscape, providing Muslims and non-Muslims alike with ethical and Shariah-compliant banking solutions(Riza, 2019).

World Bank (2018) also asserts that a crucial element that must be incorporated into the growth of digital banking is the inclusion of financial inclusion. This is due to the World Bank claimed that if a nation can led an initiative to improve financial inclusion in developing countries, it will help it to lessen poverty in developing and emerging economies. However, the development of Islamic digital banking must in line with *Maqasid al-Shariah* as *Maqasid al-Shariah* is the overarching goals and principles that underpin Islamic law. It goes beyond the literal interpretation of legal provisions and focuses on the broader purpose and intent of Islamic teachings. By discerning the objectives of Shariah, the development of Islamic digital banking will align with the welfare and interests of individuals and society, while upholding the ethical and moral values of Islam such as justice, fairness and transparent in conducting virtual transaction.

So, this paper is aimed to develop a framework of Islamic digital banking based on *Maqasid al-Shariah* for financial inclusion in order to assist the practitioner to develop a robust Islamic digital banking as there is no existence framework yet related to the development of Islamic digital banking. Apart from that, this study also will assist the future research as reference for their further study that related with Islamic digital banking. In the meantime, this study will also provide a greater understanding and awareness about digital literacy and financial literacy to the unbanked customer in order for them to join the digital banking platform in the future and assist them in alleviating the poverty that they have been experiencing.

2. Literature Review

2.1. The Concept of Islamic Digital Banking

In general, digital banking, also known as online banking or e-banking, refers to the provision of banking services and financial transactions conducted through digital channels, primarily over the internet or mobile applications. It encompasses a wide range of activities, including account management, fund transfers, bill payments, loan applications, and other financial transactions, all accessible through electronic devices. According to Mohsin et al. (2022), digital banking refers to the use of digital technology to provide banking services to customers. Digital banking has made banking more convenient, efficient, and accessible to customers, allowing them to conduct their banking activities from anywhere and at any time. It has also resulted in cost reduction, improved revenue generation, and reduced human error (Mohsin et al., 2022).

Apart from that, according to Hyun-Soo Choi and Roger K. Loh (2023) the proliferation of digital banking has led to a reduction in the number of brick-and-mortar bank branches. The

digital banking has currently reduced the reliance of bank customers on physical locations and digital banking has substantially transformed the banking industry by reducing costs relative to traditional banking and enabling broader financial inclusion beyond the traditional geographic reach of physical facilities. Consequently, in the era of digital banking, the tangible distance between a customer and a physical bank branch is becoming less significant (Loh, 2020). Shaikh et al. (2021) also emphasised that the goal of digitization should be to link previously unbanked rural and remote areas to the formal financial sector through the use of electronic banking channels, which will stimulate economic growth. By providing a vast array of innovative financial services, digital banking platforms contribute to the process of connecting formerly marginalised populations to the traditional banking system. Customers can access non-financial services via mobile banking applications of today, in addition to financial services.

According to Sathye (1999), the global banking and financial services industry has encouraged customers to adopt electronic platforms for the use of banking services. This has been done to increase productivity and efficiency. The banking and finance industry is undergoing transformations in the packaging, marketing, delivery, and consumption of its products and services as a result of the overwhelming impact of the internet. However, Financial institutions in Malaysia were strongly urged to partake in the ongoing transition to digital banking (Alita Sharon, 2020). According to Joycle Tan (2022), five applications have been given licences by BNM to construct digital banking in compliance with rules provided by the Ministry of Finance (MoF). This was required under both the Financial Services Act 2013 (FSA) and the Islamic Financial Services Act 2013 (IFSA). As a consequence of this, it is not unreasonable to hypothesise that Malaysia will transition to an internet banking system at some point in the foreseeable future.

However, the element of *Maqasid al-Shariah* should be applied in the development of digital banking. Generally, *Maqasid al-Shariah* refers to the higher goals and aims of the Shariah (Islamic law) that underpin its principles and rulings. *Maqasid al-Shariah* provides a framework for understanding the broader intents of Islamic law beyond its specific legal provisions. *Maqasid al-Shariah* aims to achieve specific objectives that uphold the well-being and interests of individuals, communities, and society as a whole. The purpose of Shariah, according to Imam al-Ghazali (1058–111 CE), is to promote the well-being of all humanity, which includes protecting their faith (*deen*), their self (*nafs*), their intellect (*a'qal*), their posterity (*nasl*), and their wealth (*mal*). Anything safeguards these five principles serves the public interest and is thus desirable. Without the protection of life, lineage, and property, as well as the guidance of faith and intellect, deception and exploitation of people would increase. Maintaining these five elements is essential to human welfare and their livelihoods, as is caring for one's property. Imam al-Ghazali (1058–111 CE) also categorised into three groups: the necessities or essentials (*daruriyyat*), the demands (*hajiyyat*), and the supplementary (*tahsiniyyat*) (M.S. Abdul Rasool, 2020; Ibn Ashur, 2006).

According to Anis Shakirah (2020), during the Covid-19 epidemic, the majority of small and medium-sized enterprises (SMEs) and customers chose digital alternatives out of necessity as they believe that digital banks provided a safer, more effective, and convenient option for digital businesses to conduct their daily business transactions cashless based in order to cope with the virus and prevent its spread. So, it is perceived that, digital banking can preserve oneself from dangerous. Moreover, the previous studies also indicate that, through digital platforms like e-banking, online banking and mobile banking, the people no need to worry about the risk of theft and this platform offers protection against the use of counterfeit

currency as this digital platform provide a safer banking and financial services (Liang, 2021; Firdaus, 2018; Amrizal & Yusri, 2019).

In addition, Dwi Satria et al. (2021) also noted that mobile banking was designed to facilitate customers' access to a variety of Islamic financial products and services, including but not limited to savings, insurance, pawning, and other alternatives. In addition, it encourages people to progressively cease engaging in prohibited activities under Islamic law, particularly the practise of usury. It is anticipated that the community's contribution to Islamic finance will continue to expand daily due to its accessibility. Then, advancements in Islamic financial technology must be made in accordance with *dharuriyyah*, which includes the preservation of religion, soul and intellect, lineage, and property. North (2018) also stressed that, by eliminating opportunities for criminal activity and corrupt behaviour, digital banking has contributed to an improvement in the socioeconomic conditions that make it a secure method of managing financial transactions.

2.2. Islamic Digital Banking for Financial Inclusion

The function of digital banking in advancing financial inclusion has been extensively studied in contemporary literature. This literature review examines significant findings from recent research. Financial inclusion is key elements of Islamic digital banking. Financial inclusion can be understood in a variety of ways depending on the context. To put it in a different context, the necessity of achieving financial inclusion necessitates the exclusion of certain people and businesses from the category of those who are permitted to make use of financial services. According to the World Bank (2018), financial inclusion is the process by which people and organisations have access to useful and reasonably priced financial goods and services that suit their needs. These products and services must be offered in an ethical and sustainable way and may include transactions, payments, savings, credit, and insurance. According to Fuller and Mellor (2008), one definition of financial inclusion is the effort to ensure that all people, regardless of their socioeconomic background, have access to "alternative" financial services that prioritise social good over profit. However, there are many who think market-based solutions to poverty can be achieved through inclusion (Alpana, 2007).

Low-income individuals and the unemployed have had historically difficult access to financial services throughout the globe. Many communities have been cut off from the financial system due to the fact that banks compete so fiercely for customers that they frequently close branches in sparsely populated areas that pose too great a danger to their bottom line. In the previous study, researchers found that mobile banking is frequently considered convenient (Stephen Mago, 2014). Utilising digital banking facilitates progress towards financial inclusion. Digital banking significantly improves the public's access to financial services, which is an extremely advantageous development. Mobile banking makes formal financial services more accessible to a larger portion of the population, including rural residents, according to earlier research (World Bank, 2018; Shaikh, 2017).

Apart from that, Beck, Demirgüç-Kunt, and Pera (2007) discuss the function of digital banking in providing economical financial services. They assert that digital banking minimises the operational costs of traditional banking, thereby reducing service fees for customers. This innovation may eliminate the financial barrier that prevents individuals from gaining access to banking services. The geographical reach of digital banking is investigated by Fungáčová and Weill (2015). They emphasise that digital banking considerably expands access to financial

services, especially in rural or remote areas. This innovation extends services to populations that conventional banking systems frequently neglect, thereby promoting financial inclusion.

Gupta and Singh (2020) provide highlights on the convenience and accessibility digital banking provides. The authors propose that, unlike traditional banks, digital banking is accessible 24 hours a day, seven days a week, making financial services available to individuals whose work schedules or other obligations prevent them from accessing banks during standard business hours. In addition, Arner, Barberis, and Buckley (2016) analyse the function of fintech innovations in financial inclusion. They contend that fintech tools, such as AI and big data, provide institutions with a deeper understanding of consumer behaviour. This enhanced comprehension enables banks to tailor their services more effectively, allowing them to reach a broader demographic and thereby promote financial inclusion. Lastly, Demirgüç-Kunt et al. (2018) emphasise the significance of digital financial literacy in empowering consumers. The authors argue that digital banking can improve digital financial literacy, enabling individuals, especially those in marginalised communities, to make informed financial decisions.

In conclusion, most of the reviewed literature concurs that digital banking plays a crucial role in promoting financial inclusion. Digital banking can substantially improve the public's access to financial services by providing cost-effective, accessible, and customised services. However, the literature also stresses the importance of balancing these benefits with potential risks, such as cybersecurity threats and digital literacy deficits.

3. Research Methodology

This study employs a qualitative methodology in which data is gathered through interviews with subject matter experts in order to make confirmation for the proposed framework. The experts with prior experience in digital banking, technology, financial inclusion, and Shariah will be the focal point of this study's sample population. The technique of purposeful sampling was chosen because it enables researchers to gain an in-depth comprehension of Islamic digital banking proposed framework (Palinkas, 2005).

In this study, two experts were chosen for their expertise based on their professions, which included digital banking experts and Shariah experts. To ensure that each interview was conducted in the same manner and with the same degree of consistency, the first author conducted each interview. The interviewees had the option of responding in Malay or English, and the queries were posed in either language. Each interview was recorded, and for those conducted in Malay, the translation of any quotation was reviewed by an individual associated with the research. Below is the list of interviewees that had been interviewed.

Table 1. List of Expert Interviewed.

No	Experts	Designation	Expertise
1	R1	Senior Lecturer at Research Centre for Shariah, Universiti Kebangsaan Malaysia (UKM), Shariah Committee Member for Maybank Islamic Berhad and Syarikat Takaful Malaysia.	Islamic Banking and Finance.

2	R2	Head of Islamic Finance Practice Group, Partner of Raja, Darryl & Loh	Islamic Finance.
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In order to gather important information and ideas for the development of a suggested framework, researchers frequently turn to expert interviews. In order to build a proposed framework for Islamic digital banking based on *Maqasid al-Shariah* for financial inclusion, this article develops a systematic process for conducting expert interviews for data collection. The first step in conducting interviews with experts is to identify individuals who possess relevant expertise and knowledge. Scholars, practitioners, policymakers, and industry professionals who have a deep understanding of Islamic digital banking and *Maqasid al-Shariah* are often selected. Experts are chosen based on their experience, publications, reputation, or specific criteria defined by the research objectives.

Once the experts have been identified, researchers reach out to them, explaining the purpose of the study and requesting their participation in an interview. The researchers provide an overview of the interview process and estimate the time commitment required. Coordination takes place to schedule convenient interview slots, which can be conducted in person, over the phone, or through video conferencing. To ensure a structured and focused interview, researchers develop an interview guide. This guide outlines the topics, questions, and themes to be covered during the interview. The guide is designed to elicit expert opinions, insights, and recommendations related to Islamic digital banking based on *Maqasid al-Shariah* for financial inclusion. Open-ended questions are included to encourage detailed responses and facilitate a deeper understanding of the subject matter. The interview process begins with researchers introducing the study's objectives, explaining the voluntary and confidential nature of participation, and obtaining informed consent from the experts. Researchers then follow the interview guide, asking questions and allowing the experts to share their perspectives, experiences, and suggestions related to the proposed framework. Follow-up questions or requests for clarification may be encouraged to delve deeper into specific points raised by the experts.

With the experts' consent, researchers may record the interviews (audio or video) for accurate transcription and analysis purposes. Detailed notes are also taken during the interviews, capturing key points, examples, and any additional insights provided by the experts. These records serve as crucial references during the analysis phase. Following the completion of the interviews, researchers transcribe the recorded interviews and combine them with their detailed notes. Thematic analysis or qualitative analysis techniques are commonly employed to identify recurring themes, patterns, and insights from the data. Coding techniques may be utilized to categorize the data and identify meaningful connections or emerging concepts relevant to the proposed framework. To ensure the credibility and reliability of the findings, researchers engage in a process of validation and verification. This involves returning to the experts to share a summary or draft of the findings, seeking their feedback to confirm accuracy and ensure alignment with their perspectives. This step helps validate the interpretation of the data and ensures that the proposed framework reflects the expert insights obtained during the interviews.

In summary, interviews with experts are an essential component of data collection for developing a proposed framework. Through a structured process that involves identifying and selecting experts, preparing an interview guide, conducting interviews, recording and note-taking, data analysis, and validation, researchers gather valuable insights that contribute to the development of a robust and relevant framework. By involving experts in the process,

researchers ensure that the proposed framework aligns with expert knowledge and perspectives, enhancing its credibility and applicability in the field of Islamic digital banking for financial inclusion.

4. Research Findings & discussion

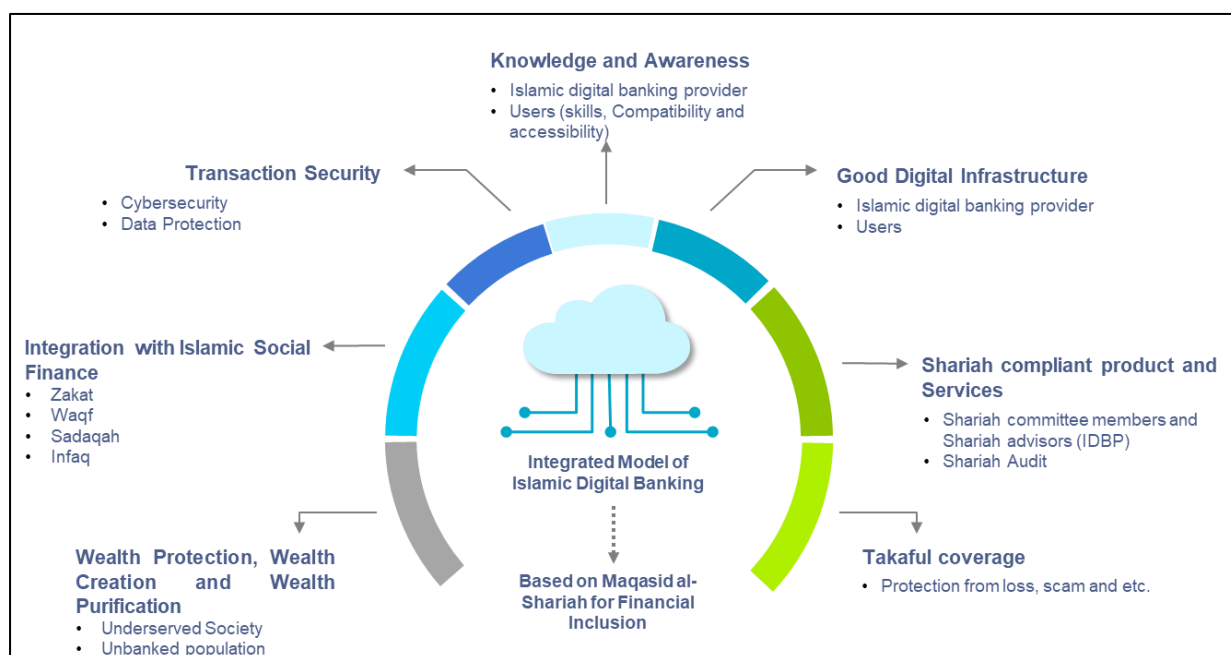


Figure 1. Proposed Framework of Islamic Digital Banking for Financial Inclusion based on *Maqasid al-Shariah*.

The researchers have arrived at this proposed framework of Islamic digital banking for financial inclusion based on *Maqasid al-Shariah* after going through the process of confirming the data and conducting interviews with experts in the industry. Detailed explanations of the proposed framework of Islamic digital banking are provided below (Figure 1) for the sake of convenience. Below is the explanation of the above framework.

4.1. Knowledge and Awareness of Islamic Digital Banking.

However, knowledge and awareness of particular new technology should be exposed to the community in order to prevent them from the harm of the new technology like misconduct of technology that will lead to the loss and risk of theft and so on. In order to make effective use of a digital banking system, having an in-depth knowledge of the relevant technologies is essential. Nadia et al. (2022) concluded that financial education and technological knowhow are the most important aspects of the banking industry. This is since the banking sector has been transformed as a result of the implementation of technology, which is why they favor financial education over financial literacy. The community's lack of knowledge and awareness regarding particular aspects of digital banking is a barrier that prevents digital banking from facilitating access to banking products. The inability of digital banking to do so was attributed

to this obstacle. Customers must be educated on the adoption of digital banking services that are Shariah-compliant for digital banking providers to be successful (Van Hove, 2019).

“I agree that, through knowledge and awareness of digital literacy and financial literacy, it would help them (B40) for the adoption for the future. Without a single knowledge, it would become barrier to the Islamic digital banking to achieve financial inclusion-R1”

“Exposure of knowledge and awareness in term of interface of Islamic digital banking, security measurement, benefit and features are important to them (B40) in order to provide more comprehension to them before adopting Islamic digital banking. -R2

Knowledge and awareness about digital banking help individuals understand the security measures implemented by financial institutions to protect their accounts and transactions. It allows them to recognize potential risks, such as phishing scams, identity theft, and fraudulent activities, and take necessary precautions to safeguard their financial information. Understanding the importance of strong passwords, two-factor authentication, and secure internet connections ensures that individuals can confidently engage in digital banking while minimizing the risk of financial loss. Apart from that, Islamic digital banking plays a crucial role in promoting financial inclusion. By spreading knowledge about Islamic digital banking services and technologies, individuals who were previously underserved or excluded from traditional banking systems gain access to financial services. Islamic Digital banking eliminates barriers such as geographical distance and physical disabilities, enabling people to participate in the formal financial sector. This inclusion empowers individuals to save, invest, and build credit, fostering economic growth and reducing poverty.

Knowledge and awareness about Islamic digital banking are essential in today's fast-paced, technology-driven world. It empowers individuals to take charge of their finances, offers convenience and accessibility, enhances security, promotes financial inclusion, and contributes to economic growth and efficiency. By embracing digital banking and staying informed about its features, individuals can make the most of the financial services available to them and navigate the digital landscape with confidence. Continued education and awareness about digital banking will further enhance its benefits, making it a cornerstone of the modern financial ecosystem.

4.2. Good Digital Infrastructure of Islamic Digital Banking

A robust digital infrastructure is vital for the success and growth of Islamic digital banking. It enables efficient operations, ensures secure transactions, promotes financial inclusion, and fosters trust among users. A strong digital infrastructure is crucial for the efficient functioning of Islamic digital banking systems. It enables seamless integration of various technological platforms, such as online banking portals, mobile applications, and digital wallets. This integration allows users to access their accounts, perform transactions, and access a wide range of banking services with ease. A robust infrastructure ensures swift response times, minimal downtime, and a user-friendly interface, enhancing the overall customer experience. Floh and Treiblmaier (2006) emphasized that the quality of a website has a significant impact on a

customer's level of satisfaction with the service they receive and their level of trust in the business.

“a robust infrastructure is crucial as it is a major factor for influencing customer behavioral to adopt it.- R1”

“User friendly interface of particular digital platforms seem to have a significant impact on customer behavior. However, A good digital infrastructure integrates Shariah-compliant systems into its systems smoothly.-R2

Islamic digital banking relies on adherence to Shariah principles in all financial activities. A good digital infrastructure incorporates Shariah compliance mechanisms seamlessly into its systems. It enables accurate and efficient monitoring of transactions to ensure compliance with interest-free (riba) and ethical investment guidelines. Through automated processes and advanced data analytics, the infrastructure facilitates the identification and prevention of any non-compliant activities, safeguarding the integrity of Islamic financial practices. A good digital infrastructure is a cornerstone of Islamic digital banking, enabling efficient operations, secure transactions, financial inclusion, Shariah compliance, and innovation. By investing in a robust digital infrastructure, Islamic financial institutions can provide convenient and reliable services that meet the evolving needs of their customers. A strong digital infrastructure not only enhances the overall user experience but also promotes the growth and sustainability of Islamic digital banking, contributing to the broader development of the Islamic finance industry.

4.3. Transaction Security of Islamic digital banking

In the realm of Islamic digital banking, transaction security is paramount to ensuring trust, protecting sensitive information, and upholding the principles of Shariah law. Islamic financial institutions place great emphasis on safeguarding customer transactions and data, employing robust security measures to mitigate risks and enhance user confidence. The previous study by Casaló et al. (2007) stated that, consumers' trust and dedication to online financial services transactions are directly impacted by the website's security, privacy, and reputation. To enhance transaction security, Islamic digital banking need to incorporates two-factor authentication (2FA) mechanisms. In addition to the traditional username and password combination, users are required to provide an additional verification factor, such as a one-time password (OTP) sent to their registered mobile devices. 2FA adds an extra layer of security, reducing the risk of unauthorized access to user accounts and ensuring that transactions are authorized by the rightful account holders.

“Having a robust security measurement is important for the development of Islamic digital banking as it can influence the trust of the customer toward particular technology. - R1 ”

“There are a few mechanisms that can be used for security measurement such as 2FA, OTP. However, AI are able to minimize the security risk in the digital platform. -R2”

Apart from that, Islamic digital banking institutions need to employ advanced fraud detection and prevention systems to identify and mitigate suspicious activities. Machine learning algorithms and artificial intelligence (AI) technologies are used to analyze transaction patterns, detect anomalies, and raise alerts in real-time. These systems can identify unusual transaction amounts, frequencies, or locations, helping prevent fraudulent activities and protect customer accounts. David Mhlanga (2020) discovered that Artificial Intelligence (AI) has a significant impact on digital financial inclusion in the areas of fraud risk detection, measurement, and management; addressing information asymmetry; and providing customer support as well as guarding cybersecurity.

Transaction security is a crucial aspect of Islamic digital banking, serving as a foundation for trust, dependability, and adherence to Shariah principles. Encryption, two-factor authentication, biometric authentication, fraud detection systems, secure mobile applications, and continuous monitoring are employed by Islamic financial institutions to safeguard transactions and protect customer data. By placing a premium on transaction security, Islamic digital banking institutions engender user confidence and uphold the principles of honesty and ethical financial conduct.

4.4. Shariah Compliant Product and Services of Islamic Digital Banking

Islamic digital banking operates under the principles of Shariah law, offering financial products and services that comply with Islamic teachings. To ensure the Shariah compliance of these offerings, Islamic financial institutions employ Shariah audits and establish Shariah committees. Shariah audits are essential in Islamic digital banking to ensure that products and services offered by financial institutions comply with Shariah principles. The key roles of Shariah audits include verify that Islamic financial products and services adhere to Shariah principles, ensuring there are no prohibited elements such as interest (*riba*) or uncertainty (*gharar*). Apart from that, Shariah audits need to make assessment on the compliance of banking operations, processes, and transactions with the guidelines set by Shariah law. They need to review documentation, contracts, and policies to ensure alignment with Shariah principles. Shariah audits identify potential risks and vulnerabilities that could lead to non-compliance. This helps in establishing appropriate control mechanisms and mitigating the risks associated with Shariah non-compliant activities. Moreover, Shariah audits provide recommendations for enhancing compliance with Shariah principles. They suggest improvements to processes, policies, and products to ensure better adherence to Shariah requirements.

Shariah committees play a crucial role in Islamic digital banking by providing expert guidance on Shariah compliance. Their responsibilities include advising financial institutions on the development and offering of Shariah compliant products and services. They ensure that these offerings adhere to the principles of Shariah law. Shariah committees review and approve new financial products, services, and contracts to verify their compliance with Shariah principles. They ensure that the offerings meet the ethical and legal requirements of Islamic finance. In addition, the responsibility of Shariah committee is monitoring the activities of Islamic financial institutions to ensure continued compliance with Shariah principles. They conduct regular reviews and audits to assess compliance and provide guidance for improvement. In cases of disputes or uncertainties regarding the Shariah compliance of

transactions or activities, Shariah committees play a crucial role in providing resolutions based on Islamic jurisprudence. Shariah compliant products and services are the hallmark of Islamic digital banking, aligning financial operations with the principles of Shariah.

“The designing product should adhere with Shariah principle. So, it is indirectly contributed to Maqasid Shariah. -R2”

4.5. Integration with Islamic Social Finance

Islamic digital banking has the potential to integrate seamlessly with Islamic social finance, creating a comprehensive ecosystem that promotes ethical and socially responsible financial practices. Islamic social finance encompasses various modes of financing aimed at addressing social and economic challenges, such as poverty alleviation, education, healthcare, and community development. By integrating Islamic digital banking with Islamic social finance, financial institutions can leverage technology to enhance the impact and reach of social finance initiatives.

Zakat, one of the five pillars of Islam, involves the mandatory charitable giving by eligible individuals to support the less fortunate. Islamic digital banking can facilitate the collection, management, and distribution of zakat funds. Digital platforms can provide transparency and accountability in the collection process, allowing individuals to make their zakat payments conveniently. Additionally, these platforms can use data analytics to identify eligible beneficiaries and ensure that zakat funds are directed to the most deserving causes. Digital platforms can facilitate the creation, administration, and utilization of waqf funds. By providing transparency and traceability, these platforms enable individuals to contribute to waqf initiatives and track the impact of their donations. Smart contracts and blockchain technology can also be utilized to ensure the proper management and utilization of waqf assets. Through the integration with Islamic social finance, Sadaqah and infaq fund can be collected and distribute smoothly and transparent.

Integrating Islamic digital banking with Islamic social finance enables financial institutions to create a comprehensive ecosystem that promotes ethical finance and addresses social and economic challenges. By leveraging technology, digital platforms can enhance the efficiency, transparency, and impact of initiatives related to zakat distribution, waqf management, infaq and sadaqah fund management. This integration contributes to the broader goal of Islamic finance in fostering sustainable development, poverty alleviation, and societal well-being.

“If we want to develop a plan to boost the Muslim economy, I think Islamic digital banking needs to merge with the Islamic social finance, whether for distribution or collection. -R1.”

“Combining digital banking with Islamic social finance mechanisms like zakah, sedekah, and waqf, as well as a focus on expanding access to credit, is unquestionably the way to go.-R2”

4.6. Takaful Coverage in Islamic digital banking

Takaful, which refers to Islamic insurance, plays a significant role in the realm of Islamic finance. Islamic digital banking can integrate takaful coverage to provide individuals with insurance products that align with Shariah principles. By incorporating takaful into digital banking platforms, individuals can access transparent, ethical, and inclusive insurance services that cater to their needs. Takaful operates on the principles of cooperation, shared responsibility, and mutual assistance. It follows the concept of *tabarru* (donation) where policyholders contribute a portion of their premiums into a common fund. This fund is then used to provide coverage and compensate any losses or damages incurred by participants. Islamic digital banking platforms can offer takaful coverage, ensuring that insurance products are compliant with Shariah principles and free from elements such as interest (*riba*) and uncertainty (*gharar*).

Islamic digital banking allows individuals to enroll in takaful coverage conveniently through online platforms and mobile applications. Users can access policy information, review coverage details, and make premium payments digitally. Digital platforms also enable efficient administration of takaful policies, including policy renewals, claims processing, and policyholder communications. This digitization enhances accessibility and transparency, making takaful coverage more convenient for individuals. Takaful coverage provided through Islamic digital banking platforms helps individuals mitigate various risks they may face. In the event of a covered loss or damage, policyholders can file claims digitally and have their claims processed efficiently. The use of digital platforms facilitates prompt communication, reduces paperwork, and expedites claims settlement processes. Additionally, digital systems can employ advanced technologies, such as AI and data analytics, to enhance risk assessment, fraud detection, and claims management.

Policyholders have visibility into the utilization of the takaful funds and can track how their contributions are being used for claims payments and operational expenses. Moreover, takaful funds are invested in accordance with Shariah-compliant investment principles, ensuring that policyholders' funds are directed towards socially responsible investments that align with Islamic ethical guidelines. Moreover, Islamic digital banking platforms offer opportunities for financial inclusion by providing takaful coverage to individuals who may have been underserved by traditional insurance systems. Digital platforms can reach individuals in remote areas or those who have limited access to physical branches. This inclusion ensures that a wider range of individuals can benefit from takaful coverage, protecting them against potential risks and enhancing their financial security.

“By incorporating Islamic digital banking with takaful company, it would help the underserved population reached the takaful product.-R2”

4.7. Wealth Protection, Wealth Creation and Wealth Purification in Islamic Digital Banking

Islamic digital banking offers unique opportunities for wealth protection, wealth creation, and wealth purification in accordance with Shariah principles. These three aspects are fundamental in Islamic finance and play a significant role in guiding financial activities to align with Islamic

teachings. Wealth protection in Islamic digital banking involves preserving and safeguarding one's financial assets through Shariah-compliant methods. Key considerations for wealth protection include avoiding interest-based transactions (*riba*), speculative activities (*gharar*), and prohibited investments. Islamic digital banking platforms facilitate wealth protection by offering various Shariah-compliant products and services, such as Wadiah product. This concept entails the safekeeping of deposits, where the bank acts as a custodian of funds and guarantees their return. Islamic digital banking platforms can provide secure custody services for valuable assets, such as gold, jewelry, or important documents, ensuring their safety and protection.

Apart from that, Islamic digital banking also focuses on wealth creation through ethical and Shariah-compliant investment opportunities. Wealth creation aims to generate sustainable profits and returns while adhering to Islamic principles. Key wealth creation strategies within Islamic digital banking include *Musharakah* product. This concept allows individuals to engage in profit-sharing partnerships with the bank or other investors, enabling them to invest in various projects and ventures. In addition, Mudarabah contracts enable individuals to invest their capital while the bank or another party provides expertise and manages the investment. Profits are shared according to a pre-agreed ratio. Sukuk, or Islamic bonds, provide individuals as well as unbanked population with investment opportunities in projects that comply with Shariah principles. Sukuk represent ownership in tangible assets or services and offer investors a share in profits. Islamic digital banking platforms facilitate wealth creation by offering Shariah-compliant investment products, providing transparent information about investment opportunities, and leveraging digital technology for efficient investment management.

Wealth purification also is an important aspect of Islamic finance, involving the cleansing of wealth from any prohibited or doubtful earnings. It is an act of giving back to society and seeking purification of one's financial resources. Key mechanisms for wealth purification in Islamic digital banking include Zakat Calculation and Distribution. Islamic digital banking platforms can incorporate tools and calculators to help individuals determine their Zakat obligations accurately. The platforms can also facilitate the collection and distribution of Zakat funds to eligible recipients. Islamic digital banking can enable individuals to contribute to charitable causes and engage in voluntary acts of giving through secure online platforms as well as to purify the investment asset that involved with prohibited element. This ensures that wealth purification is made accessible and convenient for users. By incorporating wealth purifying methods into Islamic digital banking, individuals can both contribute to social and economic progress while also meeting their religious requirements.

Islamic digital banking encompasses wealth protection, wealth creation, and wealth purification in line with Shariah principles. Through Shariah-compliant products, investment opportunities, and mechanisms for Zakat calculation and wealth purification, Islamic digital banking empowers individuals to manage their finances ethically and in accordance with Islamic teachings. The integration of digital technology further enhances accessibility, transparency, and efficiency in these aspects, enabling individuals to achieve their financial goals while adhering to their religious beliefs.

“In my point of view, The Islamic digital banking can safeguard the individual life (Hifz Nafs) and their wealth (hifz mal) from theft”.-R1”

“By providing, providing wealth protection, wealth creation and wealth purification it can facilitate the people in achieving Maqasid Shariah which is “Hifz Mal.-R2”

4.8. *Maqasid al-Shariah* in Ensuring Financial Inclusion

The proposed framework for Islamic digital banking based on *Maqasid al-Shariah* has a strong relationship with and the potential to promote financial inclusion. *Maqasid al-Shariah* refers to the higher goals and principles of Islamic law that seek to advance the well-being and welfare of individuals and society as a whole. It emphasises the ethical and social dimensions of Islamic finance by harmonising the framework with *Maqasid al-Shariah*. The *Maqasid al-Shariah* based framework emphasises the provision of financial services to all members of society, regardless of socioeconomic standing. It encourages Islamic banks to develop and provide products and services that meet the diverse requirements of individuals, including those who are financially underserved or marginalised. This emphasis on equitable access facilitates the removal of barriers and disparities in access to financial services, thereby promoting financial inclusion.

Apart from that, *Maqasid al-Shariah* promotes ethical behaviour and prudent banking practises. The framework includes principles such as fairness, justice, and transparency, ensuring that Islamic institutions operate in a way that is beneficial to society as a whole. By adhering to these principles, the framework encourages financial institutions to prioritise their customers' welfare and well-being, including underserved populations. This method promotes trust, social responsibility, and, ultimately, financial inclusion. In addition, *Maqasid al-Shariah* emphasises the significance of fostering entrepreneurship and economic development. The proposed framework can be designed to facilitate access to Islamic microfinance and financing options for small businesses, thereby facilitating their growth and prosperity. By tailoring financial services to the needs of micro-entrepreneurs and small businesses, the framework promotes economic empowerment, employment creation, and the uplift of disadvantaged segments, thereby increasing financial inclusion.

Moreover, *Maqasid al-Shariah* emphasises the significance of fostering entrepreneurship and economic development. The proposed framework can be designed to facilitate access to Islamic microfinance and financing options for small businesses, thereby facilitating their growth and prosperity. By tailoring financial services to the needs of micro-entrepreneurs and small businesses, the framework promotes economic empowerment, employment creation, and the uplift of disadvantaged segments, thereby increasing financial inclusion. Additionally, a framework based on *Maqasid al-Shariah* encourages ethical investment practises and socially responsible financing. It encourages Islamic institutions to prioritise investments and financing that promote social welfare and societal well-being. This strategy can result in the financing of projects and initiatives that address societal issues such as affordable housing, renewable energy, healthcare, and education. The framework promotes an inclusive and sustainable financial system by aligning investments with social objectives. The proposed framework can integrate financial education and literacy programs as an essential component. By emphasizing the importance of financial knowledge and skills, the framework aims to empower individuals with the necessary tools to make informed financial decisions. Improved financial literacy enhances individuals' ability to access and effectively utilize financial services, contributing to their overall financial inclusion.

In conclusion, the proposed framework that is based on *Maqasid al-Shariah* is closely related to the goal of achieving financial inclusion and can effectively contribute to the achievement of that goal. The framework supports a more accessible and socially responsible financial ecosystem by embracing the principles of equitable access, ethical behaviour, support for microfinance and small companies, ethical investment, and financial education. The framework is aligned with the goals of financial inclusion because of the emphasis it places on social well-being and welfare. As a result, it will ultimately contribute to the development of a financial system that is more inclusive and just.

5. Conclusion

In conclusion, the proposed framework of Islamic digital banking based on *Maqasid al-Shariah* for financial inclusion offers a comprehensive and holistic approach to promote inclusive and ethical financial practices. By aligning digital banking services with the objectives of Shariah, which seek to uphold the welfare and well-being of individuals and society, the framework ensures that Islamic digital banking serves as a catalyst for financial inclusion. The framework emphasizes the importance of accessibility, transparency, and ethical conduct in Islamic digital banking. It focuses on providing financial services that cater to the diverse needs of individuals, particularly those who have been historically underserved or excluded from the formal financial sector. Through the integration of innovative digital technologies and user-friendly platforms, the framework enhances the accessibility of financial services, enabling individuals to participate in the economy and improve their financial well-being.

Moreover, the framework promotes transparency and accountability in Islamic digital banking. It emphasizes the disclosure of information, adherence to Shariah principles, and ethical investment practices. By ensuring that financial products and services are transparent and aligned with Islamic values, individuals can make informed decisions and have confidence in their financial dealings. The framework also recognizes the social and economic dimensions of financial inclusion. It highlights the importance of promoting social welfare, poverty alleviation, and sustainable development through initiatives such as Zakat distribution, waqf management, and Islamic microfinance. By integrating these elements into Islamic digital banking, the framework contributes to the broader goal of creating a just and inclusive society.

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