
Shariah Finance Transformed: Digital Literacy and Inclusion to Combat Illegal Online Loan Traps

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ABSTRACT

Purposes - *This research is to explore the role of Sharia financial transformation in addressing the pitfalls of illegal online loans through the enhancement of financial literacy and digital inclusion, with the research location being in Langsa City, Aceh. Sharia finance, with its distinct principles from conventional finance, is gaining popularity in predominantly Muslim countries. Illegal online loans, with their high interest rates and detrimental terms, pose a serious threat to Indonesian society, particularly in Langsa City. The lack of financial literacy and Sharia digital financial inclusion plays a key role in this issue.*

Methods - *The research methodology includes a combination of qualitative data analysis, involving surveys, interviews, literature reviews, and 12 informants in Langsa City who have been involved in illegal online loans.*

Finding - *The research findings highlight the crucial role of financial literacy and financial inclusion in reducing the risks of individuals falling into debt from illegal online loans. Financial literacy helps individuals identify suspicious loan offers and understand their risks, while digital financial inclusion enables broader access to legitimate Sharia financial services, which can help reduce interest rates on illegal loans.*

Practical Implication - *This research is the necessity for cooperation between the government, such as the Financial Services Authority (OJK), and stakeholders in the financial industry, particularly in the banking and Sharia financial sectors, to enhance financial literacy and financial inclusion for the community. This will help create a safer financial environment and protect society from harmful practices associated with illegal loans.*

Novelty - *This research lies in its comprehensive approach to the issue of illegal online loans, considering the aspects of financial literacy and Sharia financial inclusion, as well as digital financial literacy within one research framework. The integration of these elements provides deeper insights into how financial literacy and financial inclusion can be utilized within the context of Sharia finance to protect society from the risks of illegal loans. This approach has not been extensively covered in previous academic literature.*

Keyword: *Transformasi, Inklusi dan Literasi Keuangan Syariah, Pinjaman Online Illegal*

INTRODUCTION

The unlimited development of digital technology in this era makes it easy to access everything. With the rapid development of information technology, it has had a huge impact on human life. The development of information technology provides various uses and benefits for carrying out various activities. Currently, Fintech or Fintech peer-to-peer lending is being widely discussed in the media, both mass

and social media. This is proven by the large number of people who are interested and are trapped by this (Arief Waliyuddin & Aswin Rahadi, 2023; A. A. Puspitasari & Salehudin, 2022). Illegal online loans are financing services that provide loans online. This illegal online loan system is faster and the process is very easy. However, it is not registered with the Financial Services Authority (OJK) so it is considered illegal.

In the modern era dominated by digital technology, financial transformation is a necessity to answer the demands of the times (Tarantang et al., 2019). In the midst of this progress, Islamic financial institutions play an important role in providing financial solutions that are in line with Islamic principles. Sharia financial transformation is not only limited to implementing digital technology, but also involves efforts to increase financial literacy and digital inclusion among society. At the same time, the emergence of illegal online lending tools is a serious challenge, considering the potential risks and violations of sharia financial principles that can occur. (Fintech, 2021; Nugroho, 2022; Sufyan, 2020)

Often people or individuals face obstacles in obtaining funding from the conventional financial services sector such as banks, capital markets or financial companies. Therefore, people prefer to borrow and borrow online which is easy to access and is in great demand by parties who need capital quickly and easily for certain reasons. It is proven in Figure 1.1 the number of complaints from people who are involved in online loans. From January 2023 to May, the financial services authority (OJK) recorded 3,903 complaints from people involved in online loans, with the most complaints coming in January 2023, namely 1,173 complaints. Then, in February 2023 (OJK) received 636 similar complaints, in March 2023 there were 980 complaints, in April 2023 there were 694 complaints, and in May 2023 there were 420 complaints (Annur, 2023). Many of the public complaints received by the OJK were related to threats of sharing personal data, billing all contacts on the borrower's cell phone, billing using terror/intimidation, and billing without borrowing.

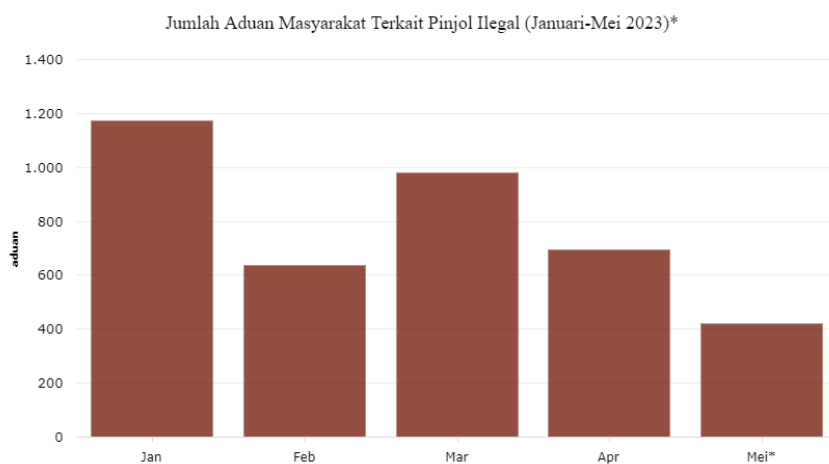


Figure 1.1 Number of Public Complaints Related to Illegal Lenders

Source: Databoks (2023)

Public literacy regarding online loans is an important thing that must be understood, so that people avoid debt traps that can be detrimental, understand and manage financial aspects and know the risks of these online loan products. Likewise, community inclusion not only provides access, but also ensures that financial services are useful and in accordance with the needs and abilities of the community

concerned. The following is an index of financial literacy and inclusion in Indonesia. Indonesia's financial literacy index score in 2022 will be 49.68%, an increase compared to 2019 which was only 38.03%. Meanwhile, the financial inclusion index score this year reached 85.1%, up from 2019 which was still 76.19%(Survei et al., 2022).

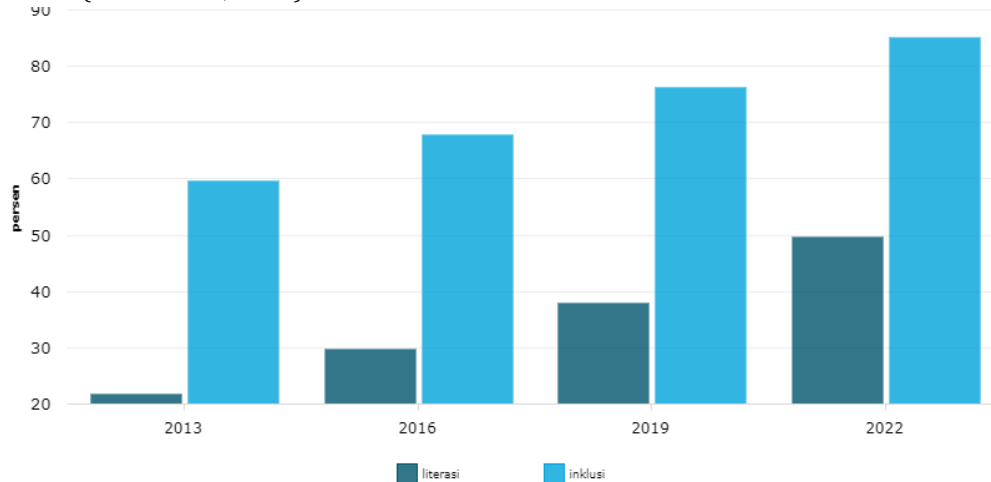


Figure 1.2 Indonesia's Financial Literacy And Inclusion Index
 Sumber: Databoks (2022)

Increasing sharia financial literacy in the context of online lending is important to protect consumers and promote financial practices that comply with sharia principles.

In sharia finance, online loans are prohibited because they conflict with Islamic principles which prohibit usury. Usury is interest or additional profit charged on a loan. In many online loan systems, high interest is often applied. This is contrary to Islamic teachings which prohibit usury, so loans with high interest are considered haram. One of the verses regarding the prohibition of usury is:

يَا أَيُّهَا الَّذِينَ ءَامَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُّضَاعَفَةً ۖ وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

"O you who believe, do not consume usury in doubles and fear Allah so that you will get good luck." (Qs Ali Imran: 130). (Kemenag, 2023)

Based on the background of the problem that has been stated above, the problem can be formulated that there are still many people who have low literacy and limited inclusiveness regarding digital-based sharia finance. This has an impact on the public because of the debt trap of illegal online loans. Therefore, the research formulation in this issue analyzes the role of digital-based sharia financial literacy and inclusion in reducing the risk of debt traps in illegal online loans in Indonesia.

This research focuses on the transformation of Islamic finance as a solution to illegal online lending practices. Sharia financial literacy and digital inclusion are considered the main foundations that can combat illegal online lending tools. Through a better understanding of sharia financial principles and the adoption of digital technology, it is hoped that society can make wise financial decisions and avoid harmful illegal practices.

RESEARCH METHOD

This type of research is qualitative with a descriptive analysis approach. The data obtained will be described in the research results (Sugiyono, 2015). By using relevant data, the results of this research will be interpreted through valid results. The relationship between the literature review research method and this research is to analyze the role of digital-based sharia financial literacy and inclusion as a strategy in mitigating the risk of debt traps from illegal online loans.

The data source in this research is primary data obtained from 12 Langsa City residents as key informants, which is a direct data source that can provide information and strengthen the research. In finding data sources, types of secondary data were also used which were obtained from various sources, such as: books, articles, journals and accurate information from trusted and relevant websites to this research, so that in the end they were able to answer existing problems. Data collection techniques are based on observation, interviews and documentation.

DISCUSSION

Sharia Financial Literacy and Digital Financial Inclusion

Financial literacy is the knowledge and skills a person has about a field or expertise in life which aims to achieve better goals in their welfare as well as individual confidence in meeting financial needs (Sugiarti, 2023).

Inclusive finance is a form of comprehensive finance that reaches all levels of society, especially the lower classes, so that they can access financial products and services more easily and cheaply, such as savings, transfers, loans and insurance. The index used to measure financial inclusion includes three main factors: access, use and quality (Nurfalah & Rusydiana, 2019a).

Accessibility is the most important aspect in the main indicators of financial inclusion (Sarma, 2012). This dimension is used to measure the penetration of sharia finance in the public. Comprehensive financial system. Surely many users like this. Therefore the financial system must be widely accessible among its users (S. Puspitasari et al., 2020).

Fintech Lending or fintech loans are financial technology-based loan services that connect lenders with loan recipients digitally via online platforms (Jeremy, 2022).. Fintech Lending is also known as loans and improving online services in the financial sector, which is one form and function of financial technology (Zefanya et al., 2022).

Financial literacy refers to a person's understanding and ability to manage personal finances wisely. In this context, financial literacy is very important so that individuals can understand the risks and consequences of illegal online loans. Through financial literacy, individuals can learn about the principles of financial management as well as how to identify potentially detrimental online loan offers.

Based on an interview conducted with Maharini, one of the students at Samudera Langsa University:

“Sharia financial literacy as I understand it is our ability to understand and use financial information well to make intelligent decisions related to personal financial management based on sharia principles. For example, understanding basic financial concepts, such as money management, budget planning, investment, debt, risk, and other financial policies can help many people understand that there are financial alternatives that are in accordance with religious principles. With this understanding, people will be more alert and tend to choose safer financial products, reducing involvement in illegal online loans (Maharini: Interview, 2023).”

Understanding and applying financial information with Sharia principles is crucial for informed personal financial management. Proficiency in fundamental financial concepts like money management, budget planning, investment, debt, risk, and other financial policies establishes a robust groundwork for individuals to recognize Sharia-compliant financial alternatives. This awareness promotes heightened vigilance, steering individuals toward safer financial products and diminishing the risk of illegal online loans. Integrating Sharia principles into finance fosters an ethical and responsible financial environment, encouraging judicious and sustainable financial decision-making.

In an interview conducted with Vilza as one of the Accounting students at Samudera Langsa University regarding digital inclusion, namely:

Efforts to ensure that all individuals and communities have equal access and participation in the digital world. This includes providing access to information and communications technology (ICT) and ensuring that everyone can take advantage of the services and opportunities offered by digital technology. Digital inclusion makes my life easier. I can pay bills, transfer money, and even invest through financial apps. This provides a safer and more efficient alternative, so that I am not tempted to try illegal online loans that often appear on social media (Vilza, Interview, 2023)

In summary, the interviews underscore the crucial role of digital inclusion in ensuring equitable access to information and services in the digital age. By facilitating access to technology, digital inclusion enables individuals and communities to tap into the myriad services and opportunities offered by the digital realm. Personally, the interviewees noted that digital inclusion significantly streamlines daily financial tasks, such as bill payments, money transfers, and investments through financial apps. This success contributes to a safer and more efficient financial landscape, mitigating the allure of illicit online loans prevalent on social media. Beyond individual convenience, digital inclusion serves as a catalyst for diminishing access disparities and broadening opportunities, fostering a more inclusive digital environment for everyone.

The Role of Digital Financial Literacy in Sharia Finance in Illegal Online Loans in Indonesia

The Role of Digital Financial Literacy in Sharia Finance in Illegal Online Loans in Indonesia Digital financial literacy in the context of sharia finance can play an important role in reducing the problem of illegal online loans. In this case, there are several roles of digital financial literacy, one of which is that digital financial literacy can help individuals identify suspicious illegal online loan offers (Saskia et al., 2020). They can understand warning signs, such as extremely high interest rates or practices that do not comply with Islamic financial principles. Additionally, digital financial literacy can provide a better

understanding of Islamic financial principles, which prohibit interest and involve sharing risks and profits. (Sugiarti, 2023; Wardani & Maksum, 2023). With this understanding, individuals will be more alert to illegal lending practices that violate sharia law.

Digital financial literacy helps individuals find and use legitimate and trusted digital sharia financial services. They can utilize sharia banking applications, sharia investment platforms, and other digital financial services that comply with sharia principles (Wulandari & Fakultas, 2020) (Nurfalah & Rusydiana, 2019b). Digital financial literacy enables individuals to understand the risks associated with illegal loans and their consequences. They will be more careful in taking loans from unauthorized sources.

Digital financial literacy helps individuals develop strong financial management skills. This includes the ability to plan a budget, manage debt, and invest wisely (Izzalqurny et al., 2023; Kasmawati et al., 2023). Digital financial literacy can provide an understanding of consumer rights in financial transactions. It can help individuals protect themselves if they engage in unauthorized or detrimental transactions.

Digital financial literacy can direct individuals to government resources and Islamic financial institutions that can provide assistance, information, or advice in Islamic financial matters. Financial empowerment through digital financial literacy, individuals can feel more confident in making their own financial decisions. They may be better able to avoid illegal practices and achieve their financial goals more effectively (S. Puspitasari et al., 2020).

To understand more deeply, researchers conducted an interview with Siti Aisyah as a student at IAIN Langsa, about how digital financial literacy can influence individuals in avoiding illegal online loans.

"In my opinion, digital financial literacy greatly influences individuals in avoiding illegal online loans. With a good understanding of how to use digital financial services safely, individuals tend to be more alert to illegal online loan offers that often appear on digital platforms. For example, I always check legality of the financial service provider and read reviews from other users before making a decision (Siti Aisyah: Interview, 2023)."

Furthermore, in an interview with the people of Sidodadi Langsa City, Burhan said that:

"Understanding digital financial literacy gives me the confidence to navigate the world of online finance. I know how to protect my personal information and choose financial products that comply with sharia principles. This makes me not interested or tempted by illegal online loans because I am confident that I can assess the risks and security of the financial services I choose (Burhan, Interview: 2023)."

And an interview with Tukiyeem as one of the fried food sellers in the Cut Nyak Dhien Campus area, said:

"With digital finance, I can be smarter in managing my finances. I always look for information regarding terms and conditions, and payment procedures before using digital financial services. This helps me avoid illegal online loans that may pose unexpected risks (Tukiyeem: Interview, 2023)."

From the explanation above, it can be concluded that understanding digital financial literacy increases individual awareness of illegal online loan offers. Concrete actions, such as checking the legality of service providers and reading user reviews, are important strategies to avoid related risks. Understanding digital financial literacy provides confidence in online financial management, enabling individuals to protect personal information and choose financial products in accordance with sharia principles. This not only has an impact on avoiding illegal online loans, but also encourages individuals to choose financial products that are safe and comply with sharia principles. Awareness of risk and security in using digital financial services is reflected in the individual's understanding of financial literacy.

A good understanding of Islamic finance principles can play an important role in reducing the risk of involvement in illegal online lending. By integrating sharia financial values, individuals can carry out their financial activities in accordance with Islamic ethical guidelines. For example, understanding the principles of fairness, transparency and halalness in financial transactions can help individuals identify loan offers that comply with these principles. Thus, a strong understanding of Islamic finance can serve as a shield to protect oneself from the potential risks and consequences of involvement in illegal online lending.

This is reinforced by the results of an interview with Hanifah as a Langsa City activist, she said that:

“I believe that understanding sharia financial principles plays a very important role in reducing the risk of being involved in illegal online loans. These principles provide financial ethical guidance, allowing me to assess whether loan offers comply with sharia values. For example, I always ensure that interest rates and other related fees comply with sharia financial principles that emphasize fairness and transparency. This understanding helps me avoid illegal loan offers that violate those principles, reducing the risk of engaging in financial practices that are inconsistent with my beliefs.”

The informant emphasized that understanding Islamic financial principles has a very significant role in reducing the risk of involvement in illegal online lending. This reflects awareness of ethical values and fairness in a financial context.

This understanding is used as a tool to avoid illegal loan offers that can violate sharia financial principles. This reflects a commitment to minimizing the risk of engaging in financial practices that are inconsistent with religious beliefs. Overall, the analysis shows that a strong understanding of Islamic finance principles provides a solid framework for individuals to make financial decisions that are in line with the values of society..

The Role of Digital Financial Inclusiveness in Sharia Finance in Illegal Online Loans in Indonesia

Digital financial inclusivity in the context of sharia finance can play an important role in reducing the problem of illegal online loans in Indonesia (S. Puspitasari et al., 2020). In this case, there are several roles of digital financial literacy, including digital financial inclusiveness, enabling people who were previously difficult to reach by sharia financial institutions to gain access to financial services that are legal and in accordance with sharia principles.

Digital financial inclusivity can be used as a platform to provide education about sharia financial principles to the public (Kornitasari, 2022, 2023). This can help them understand the importance of

Islamic finance and avoid illegal online lending practices. With digital financial inclusivity, people can take advantage of sharia financial services to finance small and medium businesses (SMEs), which can generate additional income and empower the community's economy. Digital financial inclusivity can support efforts to increase financial literacy, including sharia financial literacy. The public can access educational resources about sharia finance through digital platforms.

Results of an interview with one of the Lecturers in Finance, namely Rafiza, regarding How Digital Financial Inclusivity in the Context of Sharia Finance can Reduce the Risk of Involvement in Illegal Online Loans. Rafiza explained:

"Digital financial inclusivity in the context of Islamic finance plays an important role in reducing the risk of being involved in illegal online lending. The adoption of digital-based sharia financial services makes it easier for people to access financial solutions in accordance with Islamic principles, creating a safer alternative to illegal online loans with high interest rates. Digital finance also increases transparency in Islamic financial transactions, allowing users to track every transaction and avoid the opaqueness that may arise in illegal loans. Sharia financial education through digital platforms can also increase people's understanding of the risks of engaging in financial practices that are not in accordance with religious teachings. "Thus, digital financial inclusivity not only makes access easier, but also increases people's understanding and awareness, helping them make wiser financial decisions and avoid the risks of illegal online loans."

Based on the interview results above, digital financial inclusiveness in sharia finance helps reduce the risk of involvement in illegal online loans. Adoption of digital-based sharia financial services provides easy and fast access, creating a safe alternative to illegal loans with high interest rates. Transparency in transactions is enhanced, allowing users to track every transaction and avoid ambiguity. Sharia financial education through digital platforms also increases public understanding of the risks of engaging in financial practices that are not in accordance with religious teachings. With digital financial inclusivity, people can make wiser financial decisions, avoiding the risks of illegal online loans.

Next, an interview with Mutia, as a lecturer, about the extent to which adoption of digital-based sharia financial services can increase public awareness and understanding in avoiding illegal online loans? say that:

"The adoption of digital-based sharia financial services can increase public awareness and understanding of sharia financial principles and help avoid the risks of illegal online loans. With services that are easily accessible via digital platforms, people have the opportunity to understand the Islamic values that underlie sharia financial practices. Additionally, the education and outreach efforts that often accompany the adoption of these services provide clear information about the use of Islamic financial services and an in-depth understanding of the risks associated with illegal online lending. "Overall, the adoption of digital-based sharia financial services not only provides easier access, but is also effective in increasing public awareness and understanding of sharia financial principles, helping them make wise financial decisions and avoid the risks of illegal online loans."

So, the adoption of digital-based sharia financial services has the potential to increase public awareness and understanding of sharia financial principles, helping to avoid the risks of illegal online loans. With easy access via digital platforms, people can understand the Islamic values that underlie sharia financial practices. Education and outreach in these services provide an in-depth understanding of the risks of

illegal online lending, enabling people to make wise financial decisions in accordance with sharia principles. Overall, the adoption of digital-based sharia financial services not only makes access easier, but is also effective in increasing public awareness and understanding, so that they can avoid the risk of involvement in illegal online loans.

The Role of the Government and Sharia Financial Institutions in Encouraging Transformation

The government has a key role in developing regulations that support the growth and stability of Islamic financial institutions. Clear and supportive policies will create a conducive environment for innovation and growth in the Islamic finance sector (Pratiwi et al., 2022; Rahmawaty et al., 2023). The government can provide support in developing technological infrastructure that supports sharia financial services. This includes building digital platforms, sharia-based payment systems, and information technology infrastructure that can facilitate the transformation of sharia finance. (Aziz, 2022; Nurfalalah & Rusydiana, 2019).

The government's role in increasing sharia financial literacy is very important. Through educational programs and campaigns, the government can provide the public with a better understanding of sharia financial principles, encourage the adoption of sharia-based financial services, and reduce uncertainty to related (Rakhmat et al., 2022). Sharia financial institutions need to get financial support from the government in the form of incentives or financing to expand their reach and improve service quality. This can include funding for research and development, human resource training, and investment in technology. Sharia financial institutions can collaborate with the government in developing new products and services that comply with sharia financial principles. The government can provide incentives for innovation and product development that supports sharia financial transformation (Sufyan, 2020). The government has a role in enforcing the law and ensuring sharia financial institutions operate in accordance with sharia financial principles. This involves strict supervision to ensure compliance and integrity in Islamic financial transactions (Ilham & Hariyani, 2020; Keuangan et al., 2022).

With good collaboration between the government and sharia financial institutions, the transformation of sharia finance can be accelerated, creating a stronger and more sustainable ecosystem.

The results of an interview with Amiur, one of the residents of Langsa City, said that:

“As a citizen, I see the government's role in encouraging the transformation of sharia finance in Indonesia as quite significant. Several policies and initiatives have been taken to support the development of sharia financial institutions. First, the government has provided support in drafting regulations that support the operations of sharia financial institutions. Second, the government is also involved in education and outreach regarding sharia finance to the public. Third, there are government efforts to facilitate the growth of sharia financial institutions by providing incentives, both in the form of taxes and other incentives, to encourage investment and innovation in this sector. Overall, the government's role is considered positive in supporting the transformation of sharia finance in Indonesia, and I believe that this support will continue to be strengthened to achieve sustainable growth.”

The informant's views highlight the significant role of the government in driving the transformation of sharia finance in Indonesia. Government support can be seen through several concrete steps. By summarizing, the overall analysis shows that the government's positive role in the transformation of Islamic finance in Indonesia includes regulation, education and economic incentives (Riani & Wulandari, 2022; Sakinah & Kasri, 2022). It is believed that this support will continue to be strengthened in order to achieve sustainable growth in the sharia financial sector in Indonesia

The article explains two important aspects that are currently the focus of attention, namely Islamic financial literacy and digital inclusion, with the main aim of fighting and reducing illegal online lending tools. This article captures the essence of contemporary financial problems, especially illegal online lending tools. This reflects the author's sensitivity to the financial challenges faced by modern society, especially those related to illegal practices in online lending.

The emphasis on sharia financial literacy reflects the need for a deep understanding of financial principles in accordance with Islamic teachings. Sharia financial literacy is the basis for enabling people to make wiser financial decisions and understand financial alternatives that are in line with religious values. Digital inclusion is a key element in efforts to transform Islamic finance. By utilizing digital technology, people can more easily access sharia financial services, understand the products offered, and actively carry out financial activities that comply with sharia principles.

It is hoped that the transformation of Islamic finance and increasing financial literacy in it can be a tool to reduce community involvement in illegal lending practices which are often detrimental. Although it is not explained in detail, it gives the impression that the transformation of Islamic finance to eradicate illegal online lending is a challenge that is relevant at the local level (Indonesia) and perhaps also at the global level. This reflects the importance of local context in developing strategies to address these issues.

CONCLUSION

Based on the description above, it can be concluded that illegal online loans are widespread in Indonesia and cause various social and economic problems for society, such as being trapped in a debt vortex. This happens because of low sharia financial literacy and limited digital-based sharia financial inclusiveness. Therefore, the strategy of increasing sharia financial literacy and expanding digital-based sharia financial inclusiveness can reach all levels of Indonesian society to access online loan services fairly and wisely so as to improve people's welfare. Apart from that, sharia financial literacy and inclusiveness of digital-based sharia finance can increase the optimization of digitalization of sharia finance so that sharia-based online loan platforms can be provided and illegal online loans can be reduced.

Sharia financial transformation through digital literacy and inclusion has a crucial role in fighting illegal online lending tools. Adoption of digital-based sharia financial services can increase public awareness and understanding, enabling easier access to financial solutions in accordance with Islamic principles. Digital financial inclusivity also provides transparency in sharia financial transactions, avoiding the ambiguity that may arise in illegal online loans. Sharia financial education through digital platforms can increase public understanding of the risks of engaging in financial practices that are not in accordance with religious teachings. Thus, this transformation not only provides easier access, but is also an

effective means of increasing public awareness and understanding of sharia financial principles, so that they can make wiser financial decisions and avoid the risks of illegal online loans.

Implementing this digital transformation really requires the role and support of the government. The government's positive role in the transformation of Islamic finance in Indonesia includes regulation, education and economic incentives. It is believed that this support will continue to be strengthened in order to achieve sustainable growth in the sharia financial sector in Indonesia.

IMPLICATIONS

The implications of this research are:

1. For the public, there is increased awareness and understanding of the transformation of sharia finance through digital literacy and inclusion which can have a positive impact on the principles of sharia finance. This may lead to increased awareness of the risks of illegal online lending tools.
2. The existence of digital-based sharia financial services opens the door for people to more easily access financial solutions that are in accordance with Islamic principles. The implication is an increase in the choice of safe and reliable Islamic financial products, reducing involvement in illegal online loans.
3. Digital financial inclusivity provides transparency in sharia financial transactions. This not only creates clarity for users, but also spares them from the ambiguity that may arise in illegal online loan transactions.
4. Can empower people with a better understanding of the risks of involvement in financial practices that are not in accordance with religious teachings. This can help them make wiser financial decisions.
5. Can be a driver of growth in the sharia financial sector as a whole. With increasing demand for Islamic financial products, greater innovation and investment can be expected in this sector.

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