

Halal Transaction: Implication For Digital Retail By Using Financial Technology

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Abstract

Digital transaction is an important marketing discipline concept, for companies and consumers. The purpose of this conceptual article is to investigate the application of halal in online trading transactions that use payments with financial technology - Fintech. This article is based on a review of literature based on Islamic sharia and marketing literature which provides a discussion of online transactions and fintech as a way to develop understanding of Muslim business. It was concluded that buying and selling is a halal activity as long as it meets the shariah requirements. The difference between online business and offline business in Islam is the transaction process (contract). Online transactions are permissible according to Islam as long as they do not contain elements that can damage them such as usury, tyranny, fraud, fraud and the like and fulfill the terms and conditions of the sale and purchase. Included in the completion of the transaction that is payment using fintech becomes halal, as long as according to Islamic shariah guidance. The practical implications of this research for companies that use online transactions, it is important to expand the concept of halal in the direction of payment. Effective alignment is required between halal policies, payment strategies and the buying process. Companies that use online transactions can develop in three stages, from seeing halal compliance as an opportunity, making a halal payment system, to making the whole buying and selling process halal certified. There are so many online business transactions, therefore sellers and buyers are not limited by time and space. This condition is supported by the ease of technological assistance which is an opportunity for the country to develop more rapidly, especially for Muslims

Keywords: Islamic marketing, Halal digital transactions, Halal Fintech, Islamic values, Social exchange theory.

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1. INTRODUCTION

The core concept of marketing is to carry out transactions, which is the exchange of values between two parties known as buyers and sellers (Anderson *et al.*, 1999; Bagozzi, 1979). Therefore, it is important to pay attention to the factors that affect the relationship between both parties using the social exchange theory because people tend to relate with others to fulfill their needs. According to Thibaut and Kelley (1959), the basic assumption underlying the social exchange theory is based on the voluntarily relationship between people in accordance with buying and selling.

In the perspective of Islamic economics, *al-bay'u* (buying and selling) is etymologically defined as the process of taking and giving something. The term *Fiqhus sunnah*, stated that *al-bay'u* is an asset

associated with the voluntary exchange of transactions, or the process of transferring ownership rights to others with certain compensation through the sharia corridor.

Islam prescribed sale and purchase with the proposition of the Qur'an. According to Allah Ta'ala-QS 2:275, "... .. whereas Allah has justified the sale and purchase and forbid usury....." This means that buying and selling is a *halal* activity capable of fulfilling the *sharia* requirements. A *zuhud* is a person who avoids doubts and *makruh* while trading with adherence to the legal terms of sale and purchases in accordance with the sharia law.

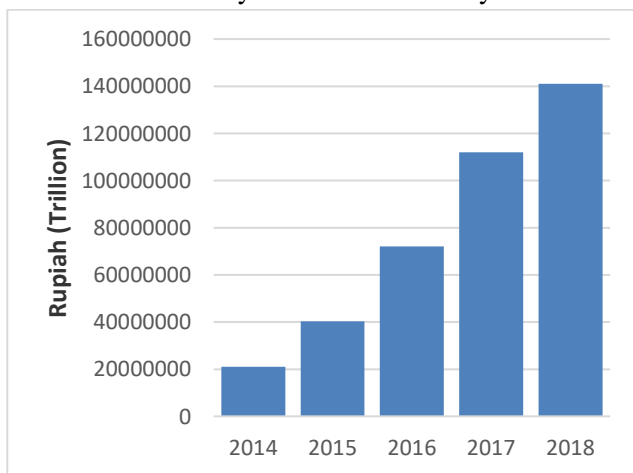
1.1. Buying and selling online

The advancement associated with information technology has spread to trade transactions. This act

was initially carried out in the presence of the buyer and seller in one place, however, with the inception of the Internet network, distance and time is no longer an obstacle for such transactions (Katos, 2012). According to Wendy *et al.*, (2019), digital technology and internet networks, are now used to carry out transactions, using mobile phones.

The development of digital trade transactions in Indonesia is growing very rapidly. The EMarketer data from the 2016 statistics showed that Indonesia's e-commerce transactions reached Rp 25.1 trillion in 2014 and increased to Rp 69.8 trillion in 2016. Similarly, in 2018 the country's digital trade increased to Rp 144, 1 trillion with an exchange rate of 1 US \$ - Rp. 13,200 due to a rise in its population by 250 million people (80% are Muslim), thereby, increasing the potential for the development of Indonesia's electronic trade. This is also supported by the continuous growth of internet users with the affordability of its price, as well as the enthusiasm of the public in using it to support their daily lives. The development of online trading is also triggered by a variety of innovative, attractive, easy and effective online products and services.

Figure 1. Indonesia's E-Commerce Transactions increased by 500% in the last 5 years



The biggest users of online transactions are millennials, and this has greatly influenced their behavior (Katherine, 2012). Online transaction user involvement is highly integrated with the Do-It-Yourself (DIY) behavior and the Technology Acceptance Model (TAM) (Wendy *et al.*, 2018). Therefore, it is essential to examine the law of online buying and selling in Islam.

1.2. The law of online buying and selling in Islam

The difference between online and offline businesses in Islam is the transaction (contract) and media process. A contract is an important element in

a business, therefore, Islam explains the existence of a physical transaction, with/without presenting the ordered object with its characteristics in accordance with the *as-salam* and *al-istishna* transactions. *As-salam* is defined as a form of the transaction using cash/immediate payment system, with a suspended delivery of goods, while in *al-istishna* the payment is hastened or deferred according to the agreement and delivery of the deferred products.

Online buying and selling in Islam is included from the sale and purchase contract of future goods known as *Bai 'as-salam*. Sellers and buyers do not meet in person and only make transfers for payments through the internet (Salim, 2017).

The original law of *mu'amalah is al-ibaahah* (permissible) as long as no proof prohibits its existence. However, it does not mean that no rules are governing it as transactions are permissible according to Islam as long as they do not contain elements capable of causing damages such as usury, tyranny, and fraud, to fulfill the terms/conditions associated with selling and buying (Marco and Maznah, 2013). Honesty, fair, and clear by providing complete data, and no intention to deceive or harm others as the word of God in Surah Al-Baqarah: 275 and 282.

1.3. Financial Technology (Fintech)

Online buying and selling are inseparable from Fintech because most payment transactions make use of Fintech which has penetrated all aspects of life. The future of business in human civilization has the ability to be disrupted into transactions that use this technology, thereby, making it rare for humans to transact with cash. Those who try to survive with cash, are likely to disappear over time. The development of Fintech is becoming rapid, with the commencement of e-Commerce trading (Kim *et al.* 2008), Internet Banking (Lee, 2009), Software as a service-SaaS (Benlian and Hess 2011), Mobile payment (Liu *et al.* 2012), Online group shopping (Melewar *et al.*, 2013), Social Network Services - SNS (Lee, Park and Kim, 2013), Social Commerce (Farivar and Yuan, 2014), and Bitcoin (Abramova and Böhme, 2016).

Fintech is a product or service used by non-financial institutions to innovative and disruptive service technologies (Sweeney *et al.*, 2015). Freedman (2006) defined it as the act of building models, values, and processes of financial products such as bonds, stocks, contracts, and money. According to Ernst and Young, it is an innovation in financial services with technology as the key enabler.

Arner *et al.*, (2015) defined it as a technology-enabled financial solution. The technical process obtained from the development and establishment of new financial software which might affect the entire traditional system (Lee and Kim, 2015). It is a corporate effort to improve financial performance services to mobile environments (Hyun-Sun, 2018).

The financial needs of the community are facilitated by the Fintech industry to reach consumers, therefore, transactions are carried out without physical contact. One of its regulators in Indonesia is OJK (Otoritas Jasa Keuangan) with No.13, 2018 on Digital Financial Innovation. Furthermore, based on the report by dailysocial.id in collaboration with OJK, Indonesia's Fintech industry in 2018 achieved a transaction value of US \$ 182.3 million or around Rp2.3 trillion, with 57% dominated by lending (smartlegal, 2019).

The various types of Fintech vary in form of business models, applications, processes or products related to the provision of financial services. The diverse financial needs of the community certainly create different services (Mazambani and Emmanuel, 2019). The Financial Stability Board (FSB) divided Fintech into four categories (smartlegal, 2019). First, Payments, Clearing and Settlement: This is an online service that uses electronic wallet or digital money in banks and non-financial institutions. Second, Deposits, Loans and Capital Raising: This uses crowdfunding, P2P lending platforms, and payday loans in one platform which provides a share of the profits from the funds. Third, Market Provisioning / Aggregators: This gathers various market information used by consumers when needed. It compares products with prices, its features and benefits. This service makes it easy for consumers to make decisions more efficiently than searching for information separately. Fourth, Investment and Risk Management with services in the form of financial planning, online trading platforms, and insurance. Online trading platforms or e-trading provide opportunities for people to invest directly through computers and all types of assets.

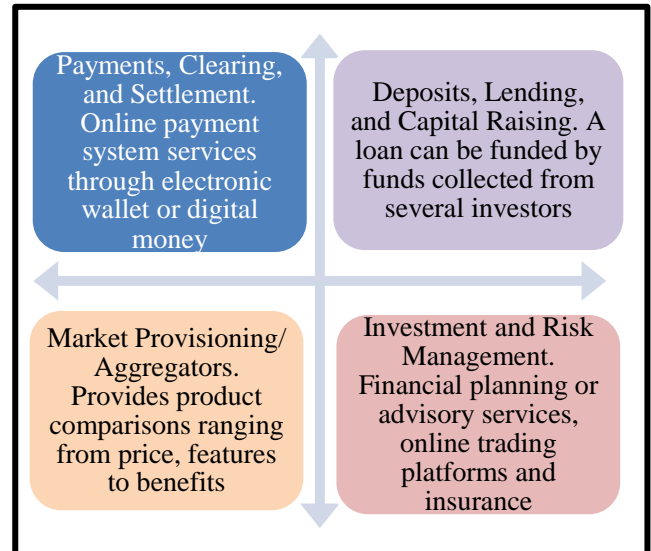


Figure 2. Types of Fintech

2. RESEARCH METHODOLOGY

The research process begins with observation, identification of problem areas, building a theoretical framework, building constructs, concept and operational definitions. Next is to determine the research design. This research uses a qualitative approach, as an exploratory research to make a study of online buying and selling using payment through financial technology. Secondary data is used in this study, the data obtained are collected, compiled, analyzed, and concluded so as to get a complete understanding of the literature study.

3. RESULTS AND DISCUSSION

3.1. Is Fintech Halal or Haram?

The common question asked, is related to the importance of transaction in accordance with Fintech to achieve *halal* or *haram*.

The discussion started with the application of fintech to transactional activities and followed by several opinions of contemporary scholars concerning the legal status of this concept. The following section focuses on the legal excavation of existing opinions and the most diligent or powerful to be practiced.

Fintech or financial technology can be interpreted as the innovation in conducting financial services. Due to the availability of different types, this study focused on the ones currently used for broad transactions by business people and the general public. Moreover, the discussion only relates to the use of fintech application by payment startup services as well as the facts of the transactions between the users and startup organizations using the application.

The user has a kind of "account" in the payment application similar to an e-money deposit. The user pays for the services rendered by the startup company by transferring a certain amount of funds from this account and this means Fintech payment transactions meet the Shariah rules. Furthermore, it becomes interesting to study this concept when companies attract consumers by providing certain discounts for using the application.

3.2. Is the given discount halal?

The opinions from contemporary clerics are grouped into those that are: (i) halal, (ii) haram due to the differences in determining the user's deposit in the payment application. In addition, there are 3 opinions relating to the fact of the deposit namely those considered as: (i) safekeeping transaction (*wadhi'ah*), (ii) *ujrah* (wages) paid upfront or in a hurry. (iii) a debt-receivable transaction (*qardh*) (Triono, 2019). Based on the above deposits, two legal opinions were produced. The first is the opinion that it is halal: this stated that transactions are allowed, because of the deposit (*wadhi'ah*) is permissible, and considered *ujrah* (wage) that is paid upfront. Therefore, a discount is not considered usury. While the second opinion is that it is haram: This stated that the transaction is permissible because it is considered a debt-receivables (*qardh*). However, when it brings up a benefit, such as a discount in the form of usury, the law becomes *haram*, and when there is no discount, it is called *halal*.

Therefore 2 different opinions, needs to be carried out using the "*Tarjih*", leading to the production of stronger and weak propositions known *rajih* and *marjuh*, respectively. In order to make a *tarjih* in accordance with the two opinions, the understanding of the different deposit payment facts between these contemporary clerics needs to be ascertained. These are classified as deposits with the following: (i) Safe keeping transactions (*wadhi'ah*). (ii) *Ujrah* (wage) which are paid upfront or in a hurry. (iii) Debit transaction (*qardh*) (Triono, 2019).

Can Deposits be categorized as Safekeeping (*Wadhi'ah*)? To answer these questions, the definition of safekeeping (*wadhi'ah*) needs to be reconsidered. "*Wadhi'ah* in *sharia* term is a treasure given to someone to guard without compensation". Based on the definition, *wadhi'ah* transaction is defined as the safeguarding of deposited assets returned to the owner after a given period. Therefore, there is no transfer of ownership in the *wadhi'ah* transaction. When the deposited assets are returned, the transaction is no

longer categorized as a *wadhi'ah*. However, when the deposit on the application falls into the category of *wadhi'ah*, then the application needs to provide a safe deposit box.

Can Deposits Be Regarded as an *Ujrah* Paid Up Front? The second opinion considers the deposition of funds as *ujroh* (wages), and payment of the *ijarah* contract which is provided at a later stage. This contract is known as the *ijarah maushufah fi adz-dzimmah*, where the user first pays for the specified services with the subsequent provision of benefits. The definition of *ijarah* is as follows: "*In sharia term, ijarah is a contract of benefits with compensation (iwadh)*". Deposits paid in advance are not called *ujroh*, because it is a specific *ijarah* contract that has been described and to manifested. In the discount giving transaction, there is a contract to pay/deposit a sum of money as opposed to the *ijarah* therefore, *Ujroh* does not also exist legally (*de jure*). The principles of jurisprudence stated that: "*When the principal issue fails, the branch follows suit.*" (Al-Burnu, 1996). Therefore, based on this rule, when the *ijarah* contract fails to take place, the *ujrah* does not exist.

Can deposits be regarded as debt-receivable (*Qardh*)? According to Qal'ah Jie and Qunaibi, (1988), *Qardh* (loan) is defined as: "Loans (*qardh*) given in the form of *mitsliyat* assets (similar assets) which are returned in the future" (Qal'ah Jie and Qunaibi, 1988). According to the 'ulama, *mitsliyat* is defined as follows: "*Mitsliyat (similar asset)* is anything found similar found in the market without producing a significant price difference" (Wazarat, 1983)

The *qardh* definition is in accordance with the assets given by the borrower to the lender, to ensues it is properly utilized. Furthermore, the returned assets are not the original though they consist of the same type or value. Therefore, the most appropriate fact regarding unpaid deposit to the application provider is the *qardh* contract.

In Sharia, it is used as a price for buying and selling transactions or *ujrah* for *ijarah*, by using the *hawalah* contract. "*Hawalah* is the transfer of rights by the first party obliged to fulfill the rights, from the person who claims it, to others who are obliged to fulfill the rights to the first party." (An-Nabhani, 1994).

According to the above definition, *hawalah* is a transfer of debt consisting of consumers, startup companies, and application providers. The

transactions between these parties in accordance with sale and purchase have already existed. From the review of this law, the payment deposit in the application provider is more appropriate in *Qardh* (debts) contracts.

Furthermore, when the deposit is *qardh*, any benefits that arise from it, in the form of money, goods or services, is categorized as usury. "Every debt that generates benefits is *Riba* (usury)" (HR - Hadith narrated by Baihaqi).

The next argument/opinion, "A man from us lends (*qardh*) property to his brother, who gives him a gift. Therefore, Prophet Muhammad SAW said, 'When one of you gives a loan, and is given a gift, or placed in his vehicle, he needs to reject the offer and must not ride the car. Unless it has become a habit.'" (HR - Hadith narrated by Ibnu Majah). Therefore, every time there is a discount because the user pays through the application, it can be considered as usury which is haram.

However, when the user gets a discount from a particular store for items purchased, and not from the application provider, then it is called permissible or *halal*, provided it is between cash payment and application users. When there is a difference such as cash payment, without a discount from the store, it is considered usury.

4. CONCLUSION AND IMPLICATIONS FOR FUTURE RESEARCH

The use of modern technology such as computers or smartphones as a tool to facilitate the business of buying and selling is one of the most profitable marketing strategies. In the digital era, there are many trade online transactions, therefore, sellers and buyers are not limited by space and time. This condition is supported by the ease of technological assistance which is an opportunity for countries to develop faster, especially for Muslims (Walter, 2004).

The use of knowledge in conducting competition accelerates welfare because there are innovations in the utilization of resources, therefore, efficiency and effectiveness are achieved (McKeon and Weir, 2000).

In online transactions, the supply of applications for goods by the seller on the website is called *ijab* and its filling/delivery by the buyer is called *qabul*. As for the goods, its images and the specifications are clearly explained, with explanations that are capable of affecting the selling price of goods. After *ijab qabul*, the seller asks the buyer to transfer money to their

bank account, before sending the goods via a courier or using other services. Therefore, majority of clerics justify the online buying and selling transactions as long as there is no element of *gharar* or obscurity, by providing specifications in the form of images, types, colors, shapes, and models that affect the price of goods.

The process of digital transaction needs proper attention to the payment methods by avoiding non-*halal* transactions. Presently, most online transactions are made with Fintech, which are declared *halal* as long as they meet the *sharia* rules, with awareness to the price difference with/without using a payment application. There are actually many types of Fintech applications as shown in Figure 2, however, only quadrant 1 (one) which describes payment is analyzed in this research. Quadrant 3 (three) on deposit, lending, capital raising, market provisioning, investment, risk management need to be further studied.

In addition, this research covers online transactions in the form of goods, while the development of service sales is also growing rapidly. Therefore, further studies need to examine the transactions service sector.

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