



How to cite this article:

Assrudin. W.A.W.M., Musaddad. H.A., Abidin. N.Z., Safiyudin. F.S., Rahim H.A., Abdullah. Nuraini (2025), Innovative Shariah-Compliant Financing Solutions for Affordable Housing: Integrating Payment Technologies. *International Journal of Islamic Business*, 10(1), 44-64. <https://doi.org/10.32890/ijib2025.10.1.4>.

INNOVATIVE SHARIAH-COMPLIANT FINANCING SOLUTIONS FOR AFFORDABLE HOUSING: INTEGRATING PAYMENT TECHNOLOGIES

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Received: 21 October 2024

Revised: 13 January 2025

Accepted: 9 March 2025

Published: 31 March 2025

ABSTRACT

The Malaysian government has launched numerous initiatives to provide affordable housing for low- and middle-income groups. However, rising living costs and the gap between household income and property prices continue to make homeownership unattainable for many. This study explores Shariah-compliant financing models, including Murabaha, Ijara, and Diminishing Musharakah, to assess their relevance to housing affordability in Malaysia. It also analyzes the role of digital payment technologies such as blockchain, mobile banking, and peer-to-peer (P2P) lending in improving efficiency, accessibility, and cost-effectiveness in housing finance. Furthermore, the study examines the integration of Shariah-compliant principles with fintech innovations to address the housing affordability crisis and provides actionable insights for policymakers and financial institutions. Using a qualitative research approach, purposive sampling was employed to select experts in Islamic finance, fintech, and housing. Data were collected through semi-structured interviews and analyzed using thematic analysis to identify key themes related to integrating Shariah-compliant financing with digital payment technologies. The findings reveal that combining Shariah-compliant financial instruments with advanced payment technologies can significantly reduce housing costs, improve access to financing, and enhance operational efficiency. By fostering collaboration among stakeholders, these solutions promote financial inclusion and sustainable housing development. The study offers valuable insights for researchers, policymakers, and practitioners seeking ethical and innovative approaches to Malaysia's housing affordability challenges, highlighting the transformative potential of Shariah-compliant payment technologies.

Keywords: Shariah-compliant Financing, Islamic Fintech, Affordable Housing, Payment Technology, Regulatory Support

INTRODUCTION

With the increasing cost of living and minimum wage growth, many individuals face significant challenges in purchasing homes (Musaddad, 2023; Su Ling, Joan Almeida, et al., 2017). Moreover, in Islamic teachings, a home is viewed as a fundamental human necessity, as emphasized in the Quran in Surah al-Nahl, verse 80.

وَاللَّهُ جَعَلَ لَكُم مِّنْ بَيْوَتِكُمْ سَكَناً وَجَعَلَ لَكُم مِّنْ جُلُودِ الْأَنْعَمِ بُيُوتاً تَسْتَخْفُونَهَا يَوْمَ ظَعْنَكُمْ وَيَوْمَ إِقَامَتِكُمْ وَمِنْ أَصْوَافِهَا وَأَوْبَارِهَا وَأَشْعَارِهَا أَثْنَا وَمَتَعًا إِلَى حِينِ ٨٠

And Allah has made your homes a place to rest, and has given you tents from the hide of animals, light to handle when you travel and when you camp. And out of their wool, fur, and hair He has given you furnishings and goods for a while.

(Surah al-Nahl 16:80)

Surah al-Nahl (16:80) highlights the fundamental role of housing as a divine provision that ensures stability, security, and comfort for individuals and families. The verse emphasizes that homes are not just physical shelters but a source of rest and well-being, reflecting the importance of accessible and sustainable housing. It also mentions temporary shelters and the use of natural resources, underscoring the need for adaptable and ethical housing solutions. From an Islamic perspective, this is in line with the Maqasid of Shariah, particularly the protection of life and wealth, reinforcing the responsibility of society to ensure fair and equitable access to housing. In the context of Islamic finance, this verse supports the need for Shariah-compliant financing models that promote affordability, sustainability and inclusivity, ensuring that housing remains a right for all and not a privilege for a few.

In addressing this need, Shariah-compliant financing offers ethical and interest-free alternatives to conventional home financing, ensuring that housing solutions remain accessible and fair. This study looks at how combining Shariah-compliant financing with modern payment technologies can help make housing more affordable while following Islamic ethical standards. By integrating advanced financial technologies such as blockchain, mobile banking, and peer-to-peer (P2P) lending, the efficiency, accessibility, and cost-effectiveness of housing finance can be enhanced. Shariah-compliant finance follows Islamic principles, which means it avoids charging interest (riba), excessive uncertainty (gharar), and speculative activities (maysir) (Akther, 2015). Instead, it focuses on fair risk-sharing and ethical investments. Key financial tools like Murabaha (cost-plus financing), Ijara (leasing), and Diminishing Musharakah (a declining partnership) are used in various sectors, including housing finance (Muneeza et al., 2020).

Modern technologies like blockchain, mobile banking, and peer-to-peer (P2P) lending can enhance these traditional tools (Javaid et al., 2022). For example, blockchain can provide a secure and transparent way to handle housing transactions. Smart contracts, which are a part of blockchain technology, can automatically enforce agreements in a Shariah-compliant manner, reducing the need for intermediaries and ensuring all parties follow the agreed terms (Izzul et al., 2023).

Malaysia is a leader in merging Islamic finance with digital innovations (M. S. Abdullah et al., 2020). The country has strong support from institutions like Bank Negara Malaysia and the Securities Commission Malaysia, creating a favorable environment for Islamic fintech growth (Bank Negara Malaysia, 2023a). Government initiatives such as the Financial Sector Blueprint 2022-2026 and the

Shared Prosperity Vision 2030 highlight Malaysia's commitment to using Islamic finance for economic development (Bank Negara Malaysia, 2022b). These policies encourage the creation of Shariah-compliant fintech solutions to improve financial inclusion and housing affordability.

However, integrating new technologies with Shariah principles presents several key challenges. One of the main concerns is ensuring that technologies such as blockchain, mobile banking, and peer-to-peer lending fully comply with Shariah law. This requires ongoing consultation with Islamic scholars and regulatory bodies, as compliance is not a one-time certification but a continuous process. Issues such as gharar (uncertainty), riba (interest), and maysir (speculation) must be carefully assessed, particularly in decentralized financial models like blockchain and P2P lending (Muryanto, 2023). Another major challenge is cybersecurity, as digital financial transactions are vulnerable to fraud, hacking, and data breaches. Financial institutions need to make significant investments in encryption, secure authentication, and fraud detection technologies to safeguard financial data and build consumer trust (Paul et al., 2023).

Additionally, market adoption remains a challenge, as many consumers and financial institutions are unfamiliar with Shariah-compliant digital payment solutions. Without sufficient awareness, education, and trust-building measures, the adoption of these technologies may be slow (Shuib et al., 2024). Finally, regulatory frameworks must evolve to keep up with fintech advancements while ensuring compliance with Shariah principles. Regulatory bodies such as Bank Negara Malaysia and the Securities Commission Malaysia must continuously develop policies that support innovation while maintaining financial stability and ethical integrity. Addressing these challenges is crucial for successfully integrating Shariah-compliant fintech solutions into the housing finance sector.

A critical challenge in integrating Shariah-compliant financing with digital payment technologies is market adoption. One of the study's objectives is to analyze the role of digital payment technologies, including blockchain, mobile banking, and peer-to-peer (P2P) lending, in enhancing accessibility, efficiency, and affordability in housing finance. However, for these technologies to be effective, they must be widely adopted by financial institutions and consumers. Many consumers remain unfamiliar with Shariah-compliant financial products and digital payment solutions, leading to hesitation in their adoption (Shuib et al., 2024). Furthermore, traditional financial institutions may be slow to integrate these technologies due to concerns over compliance, infrastructure costs, and perceived risks (Kajol et al., 2022). Addressing these market adoption barriers is essential to ensuring that fintech innovations can successfully support affordable housing solutions within an Islamic finance framework.

This study seeks to address the challenges of housing affordability by exploring how Shariah-compliant financial instruments can be integrated with modern payment technologies to enhance accessibility and efficiency in home financing. Using qualitative research methods, including expert interviews and document analysis, this study examines the feasibility, challenges, and potential impact of combining Islamic financial principles with digital innovations. By doing so, it aims to provide valuable insights for policymakers, financial institutions, and researchers in developing ethical and sustainable financial solutions that promote inclusive and affordable housing.

Also, by overcoming these obstacles, Malaysia can serve as an example for other countries that want to use a similar ethical and innovative financial solution model. As the Quran states, highlighting the importance of ethical financial practices.

يَتَابُهَا الَّذِينَ إِمْنَوْا لَا تَأْكُلُوا الرِّبَوْا أَضْعَافَ مُضَعَّفَةٍ
وَأَنْقُوْا اللَّهَ لَعْلَكُمْ تُفْلِحُونَ ١٣

“O you who have believed, do not consume usury, doubled and multiplied, but fear Allah that you may be successful”

(Surah Al-Imran, 3:130)

Also, it is aligned as the Prophet Muhammad (peace be upon him) said:

“Whoever relieves a believer’s distress of the distressful aspects of this world, Allah will rescue him from a difficulty of the difficulties of the Hereafter. Whoever alleviates [the situation of] one in dire straits who cannot repay his debt, Allah will alleviate his lot in both this world and in the Hereafter.”

(Sahih Muslim)

This hadith highlights the ethical duty of alleviating financial distress, aligning with the goals of Shariah-compliant financial solutions to promote social justice and economic equity.

CURRENT ISSUES AND CHALLENGES

Housing affordability refers to the ability of households to purchase or rent housing without compromising their ability to meet other basic living expenses (N. Azmi & Bujang, 2021). In Malaysia, this issue is particularly severe for middle and low-income households. The combined pressures of escalating living expenses, and wages not going up make it hard for many Malaysians to achieve homeownership. This financial strain is especially pronounced in urban areas, where property prices have gone up a lot, making the gap between income and housing costs worse (Baqtaya et al., 2016; Musaddad et al., 2023). The cost of living in Malaysia has been steadily increasing. This includes expenses for food, transportation, education, and healthcare. As these costs rise, families have less disposable income available to spend on housing. While living costs have surged, wage levels have not kept pace. Many Malaysians experience slow or stagnant wage growth, meaning their purchasing power diminishes over time (N. A. Azmi et al., 2023).

Moreover, urban areas like Kuala Lumpur, Penang, and Johor Bahru have seen particularly significant increases in property prices (J. Abdullah, 2012). The demand for housing in these urban centers is high, driven by factors such as better job opportunities, education, and lifestyle amenities (Mohammad Fadhil et al., 2020). However, the supply of affordable housing has not kept up with this demand, causing property prices to rise sharply. As a result, many Malaysians, especially in urban areas, choose to rent rather than buy homes (Ag Anuar & Abdul Wahab, 2022). Renting may be seen as a more flexible and financially manageable option in the short term. However, long-term renting can lead to financial instability, as renters do not build equity in a property. As a result, many are forced to rent, which does not contribute to long-term financial stability. The high cost of housing also reduces disposable income, leading to increased financial stress among households.

Besides that, the struggle to afford a home puts significant financial pressure on families (Ismail et al., 2020). The high cost of housing significantly reduces disposable income (Wang & Liang, 2022). When a large portion of household income is allocated to housing expenses, less is available for other essential

needs such as food, health care, education and savings. This can lead to a lower standard of living and increased financial stress (Rahman et al., 2021). According to Bank Negara Malaysia (BNM), a large percentage of households spend more than 30% of their income on housing, which exceeds the threshold of what is considered affordable (Su Ling, Almeida, et al., 2017). To buy a house, many Malaysians use large mortgages, increasing the level of household debt. High levels of debt can be risky, especially if interest rates rise or if there is a decline in the economy. BNM has expressed concern about the high level of household debt, which is among the highest in the ASEAN region. As of May 2024, Malaysians spent about RM44.01 billion on residential property, showing a year-over-year growth of approximately 5.7% (Bank Negara Malaysia, 2024).

When the market is unaffordable, it can lead to reduced spending in other sectors. High housing costs can discourage investment and consumption, leading to slower economic growth. Additionally, a lack of affordable housing can make it difficult to attract and retain talent in urban areas, potentially impacting business growth and economic productivity (Tan et al., 2017). The housing affordability crisis can have long-term generational effects. Young adults may delay important life events, such as marriage and starting a family, because they cannot afford a home (Galster & Lee, 2021). Additionally, without the ability to build home equity, future generations may find it increasingly difficult to achieve financial stability and ability to move to a higher social class.

In addition, building on the housing affordability crisis in Malaysia, regulatory challenges further complicate in creating effective solutions. These challenges need to look at many aspects and require a nuanced approach to ensure that financial and housing policies can meet the needs of middle and low-income families while adhering to both national regulations and Islamic principles. One of the main regulatory challenges is ensuring that housing policies and financial regulations are aligned with Shariah principles. Shariah-compliant finance, which adheres to Islamic ethical standards, prohibits charging interest (riba), prohibited in Islam (haram), excessive uncertainty (gharar), and speculative activities (maysir) (Jinni & Amin, 2020). This means that all financial transactions must be structured to avoid these prohibited elements, which can be complex and require continuous oversight.

For instance, in the context of home financing in Malaysia, instruments like Murabaha (cost-plus financing) which combined with payment on deferred price to future date contract known as Bai Bithaman Ajil (BBA) are commonly used. However, argued by Muslim scholars in Middle East countries that it is similar to conventional home financing (Yusof et al., 2011). In BBA Murabahah, the bank purchases a property at the current market price and then sells it to the customer at an agreed-upon price, which includes the bank's profit margin. The customer pays this total amount in installments. This concept of BBA Murabahah is widely implemented in Malaysia, Indonesia, and Brunei (Yusof et al., 2011).

These instruments need to be regularly reviewed and approved by Shariah scholars to ensure compliance with Islamic law (Mohd Safian, 2017). This ongoing need for Shariah certification and consultation adds layers of complexity to the regulatory environment. Different regions have diverse interpretations of Shariah law, leading to inconsistencies in regulatory frameworks across various jurisdictions. This lack of standardization can hinder the development and implementation of Shariah-compliant financial products. For instance, what might be considered compliant in one region could be deemed non-compliant in another, creating challenges for financial institutions looking to operate across multiple markets (Mohd Safian, 2017).

Successful implementation of Shariah-compliant financial solutions requires strategic investment in infrastructure to support advanced technologies. Financial institutions need to develop and maintain systems that can support complex Islamic financial products like Murabaha (cost-plus financing), Ijara

(leasing), and Musharakah (partnership) (Biancone & Radwan, 2018). These systems must be designed to handle the unique aspects of these products, such as profit-sharing mechanisms and compliance with Shariah principles. The cost of developing and maintaining such infrastructure can be significant, particularly for smaller financial institutions or new entrants to the market (Adewale, 2022). Operational costs associated with the day-to-day running of Shariah-compliant financial products and services are also significant. This includes costs including staff training, management, and maintenance of financial systems and platforms (Mustaffa Kamil, 2019). Financial institutions must ensure that their staff are proficient in Shariah principles and the specific requirements of Islamic financial products, which require continuous training and development programs (Yahya et al., 2016).

Integrating advanced technologies like blockchain, mobile banking, and peer-to-peer lending into Shariah-compliant financial instruments involves addressing complex regulatory requirements to ensure compliance. These technologies promise to enhance transparency, efficiency, and security in financial transactions, but ensuring they meet Shariah standards is complex (Todorof, 2018). Continuous oversight and updating of regulations are necessary to keep pace with technological advancements while maintaining Shariah compliance (Izzul et al., 2023).

Additionally, ensuring robust cybersecurity measures is crucial to protect Shariah-compliant financial systems as they adopt advanced technologies. Cyber security is another important regulatory concern. As financial transactions increasingly move to digital platforms, protecting sensitive financial data and preventing fraud is essential. Regulatory bodies must ensure that financial institutions implement strong and sturdy cyber security measures to protect consumer data (Komaruddin et al., 2023). This involves setting and enforcing standards for data protection, monitoring compliance and constantly updating regulations to address new threats. Encouraging market adoption of Shariah-compliant financial products and modern payment technologies is also a regulatory challenge. Many users are not familiar with this product and may hesitate to use it.

Regulatory bodies should encourage education and awareness campaigns to build trust among consumers. They also need to provide incentives for traditional financial institutions to adopt new technologies and Shariah-compliant products (Shuib et al., 2024). Housing affordability refers to the ability of households to purchase or rent housing without compromising their ability to meet other basic living expenses (N. Azmi & Bujang, 2021). In Malaysia, this issue is particularly severe for middle and low-income households. The combined pressures of escalating living expenses, and wages not going up make it hard for many Malaysians to achieve homeownership. This financial strain is especially pronounced in urban areas, where property prices have gone up a lot, making the gap between income and housing costs worse (Baqutaya et al., 2016; Musaddad et al., 2023). The cost of living in Malaysia has been steadily increasing. This includes expenses for food, transportation, education, and healthcare. As these costs rise, families have less disposable income available to spend on housing. While living costs have surged, wage levels have not kept pace. Many Malaysians experience slow or stagnant wage growth, meaning their purchasing power diminishes over time (N. A. Azmi et al., 2023).

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In addition, building on the housing affordability crisis in Malaysia, regulatory challenges further complicate in creating effective solutions. These challenges need to look at many aspects and require a nuanced approach to ensure that financial and housing policies can meet the needs of middle and low-income families while adhering to both national regulations and Islamic principles. One of the main regulatory challenges is ensuring that housing policies and financial regulations are aligned with Shariah principles. Shariah-compliant finance, which adheres to Islamic ethical standards, prohibits charging interest (riba), prohibited in Islam (haram), excessive uncertainty (gharar), and speculative activities (maysir) (Jinni & Amin, 2020). This means that all financial transactions must be structured to avoid these prohibited elements, which can be complex and require continuous oversight.

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Implementing Shariah-compliant financial solutions requires substantial investment in infrastructure. Financial institutions need to develop and maintain systems that can support complex Islamic financial products like Murabaha (cost-plus financing), Ijara (leasing), and Musharakah (partnership) (Biancone & Radwan, 2018). These systems must be designed to handle the unique aspects of these products, such as profit-sharing mechanisms and compliance with Shariah principles. The cost of developing and maintaining such infrastructure can be significant, particularly for smaller financial institutions or new entrants to the market (Adewale, 2022). Operational costs associated with the day-to-day running of Shariah-compliant financial products and services are also significant. This includes costs including staff training, management, and maintenance of financial systems and platforms (Mustaffa Kamil, 2019). Financial institutions must ensure that their staff are proficient in Shariah principles and the specific requirements of Islamic financial products, which require continuous training and development programs (Yahya et al., 2016).

Furthermore, integrating advanced technologies such as blockchain, mobile banking, and peer-to-peer lending into Shariah-compliant financial instruments presents additional regulatory hurdles. These technologies promise to enhance transparency, efficiency, and security in financial transactions, but ensuring they meet Shariah standards is complex (Todorof, 2018). Continuous oversight and updating of regulations are necessary to keep pace with technological advancements while maintaining Shariah compliance (Izzul et al., 2023).

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In addressing the housing affordability crisis, it is important to align financial solutions with the ethical standards of Maqasid Shariah, promoting social justice and economic equity. The Quran emphasizes the importance of justice in Surah An-Nisa (4:135), urging believers to stand firm in justice, even against personal interests.

يَأَيُّهَا أَيُّهَا الَّذِينَ أَمَّنُوا كُونُوا قَوَّمِينَ بِالْقِسْطِ شُهَدَاءُ اللَّهِ وَلَوْ عَلَىٰ أَنفُسِكُمْ أَوِ

“O believers! Stand firm for justice as witnesses for Allah even if it is against yourselves.”

(Surah An-Nisa 4:135)

Similarly, the prohibition of riba in Surah Al-Baqarah (2:275) highlights the need for ethical financial transactions.

وَأَحَلَ اللَّهُ الْبَيْعَ وَحَرَمَ الْرِبَا

“But Allah has permitted trading and forbidden interest.”

(Surah Al-Baqarah 2:275)

Furthermore, Hadiths such as 'Do not harm others, and do not reciprocate harm' (Sunan Ibn Majah, Hadith 2340) reinforce the principle of avoiding exploitation. By adhering to these principles, we can ensure that housing finance solutions are fair, transparent, and beneficial to society, in line with the broader objectives of Maqasid Shariah and sustainable development. These challenges require comprehensive policies to increase the supply of affordable housing and innovative financial solutions such as Shariah-compliant financing to promote economic equity and social justice. These issues also require collaboration among stakeholders, including regulatory bodies, financial institutions, technology providers, and consumers.

In summary, while the affordability crisis is driven by economic factors such as the price-income gap, rising property costs, and stagnant wages, this study focuses on addressing financing and payment-related challenges. By integrating Shariah-compliant financial models with digital payment technologies, this research aims to enhance accessibility, efficiency, and affordability in home financing, ultimately providing an ethical and innovative solution to Malaysia's housing affordability crisis.

RESEARCH METHODOLOGY

This study employs a qualitative research approach to explore innovative Shariah-compliant financing solutions integrated with advanced payment technologies in addressing Malaysia's housing affordability crisis. A qualitative approach is chosen as it allows for an in-depth understanding of the complex relationship between Shariah-compliant financing models and digital payment technologies. This method enables the exploration of theoretical frameworks, practical applications, and stakeholder perspectives by gathering rich and detailed data that would be difficult to capture through quantitative methods. By focusing on expert insights, this approach provides a comprehensive analysis of the integration of financial and technological innovations in the context of affordable housing.

The study utilizes purposive sampling, a non-probability sampling technique that ensures the selection of respondents with relevant expertise. The respondents include key stakeholders such as Shariah scholars, fintech professionals, policymakers, representatives from Islamic financial institutions, and potential homebuyers. These individuals are selected due to their direct involvement in the field, enabling the study to gain valuable insights into the feasibility, challenges, and potential of integrating Shariah-compliant financing with digital payment technologies. By engaging these participants, the study aims to capture diverse perspectives on the role of fintech in enhancing housing accessibility while maintaining adherence to Islamic financial principles.

To ensure a comprehensive data collection process, the study incorporates semi-structured interviews and document analysis. The semi-structured interviews are conducted with approximately 30 to 45 respondents, allowing for flexibility in questioning while ensuring that key themes related to financing models, regulatory considerations, and technological advancements are thoroughly explored. The interviews focus on understanding the practicality, efficiency, and limitations of current Shariah-compliant home financing models and the potential impact of advanced payment technologies such as blockchain, mobile banking, and peer-to-peer (P2P) lending. Additionally, document analysis is

conducted to examine secondary sources, including reports from Bank Negara Malaysia, Securities Commission Malaysia, Islamic financial institutions, industry white papers, and academic research. These documents provide empirical evidence and contextual background, supporting the findings from the primary data collection process. By combining interviews with document analysis, the study ensures a well-rounded approach to understanding the landscape of Shariah-compliant housing finance.

The data collected is analyzed using thematic analysis, a qualitative method that helps identify, interpret, and report recurring themes within the dataset. Thematic analysis allows the study to systematically categorize the insights obtained from interviews and documents, providing a structured understanding of key factors influencing the adoption of Shariah-compliant payment technologies. The analysis focuses on recognizing common trends related to affordability, financial accessibility, regulatory compliance, consumer trust, and technological integration. This method ensures that the findings are organized into meaningful patterns, making it easier to draw relevant conclusions about the role of fintech in enhancing housing affordability.

To maintain ethical integrity, this study follows strict ethical considerations. All participants provide informed consent before taking part in the interviews, ensuring that they understand the purpose of the study and their rights as respondents. Additionally, confidentiality and anonymity are maintained throughout the research process to protect the privacy of respondents and encourage open discussions. Any sensitive data collected is securely stored and used solely for academic purposes. Ethical approval is obtained from relevant institutional review boards to ensure that the study aligns with research ethics guidelines.

By adopting this methodological framework, the study ensures a robust and well-structured approach to investigating how Shariah-compliant financing and digital payment technologies can contribute to addressing housing affordability in Malaysia. The integration of qualitative insights, expert perspectives, and secondary data analysis strengthens the study's ability to provide valuable recommendations for policymakers, financial institutions, and technology providers seeking to enhance financial inclusion through ethical and innovative housing finance solutions.

CASE STUDIES AND REAL-WORLD EXAMPLES

MyKNP (*Khidmat Nasihat Pembiayaan*)

Problem: Many Malaysians, particularly those in the low- and middle-income groups, struggle to secure home financing due to loan rejections from banks. A common challenge is the lack of understanding of financing eligibility criteria and credit assessment standards, leading to repeated application failures.

Solution: To address this issue, Bank Negara Malaysia (BNM) launched MyKNP, an advisory initiative under the Credit Counseling and Management Agency (AKPK) and the Credit Guarantee Corporation Malaysia Berhad (CGC). MyKNP provides rejected applicants with detailed explanations of why their financing applications were unsuccessful and offers tailored financial advice to improve their eligibility. It also educates consumers on alternative Shariah-compliant financing options that align with their financial capability.

Impact: The initiative has improved financial literacy among homebuyers, helping them make informed decisions and enhance their creditworthiness. It has also facilitated access to housing finance

by guiding applicants toward suitable financial products and assisting them in strengthening their eligibility.

CIMB Islamic's Home Financing Solutions

Problem: For many homebuyers in Malaysia, accessing affordable and Shariah-compliant financing remains a challenge. Conventional mortgage products often involve interest (riba), which is prohibited in Islamic finance, making them unsuitable for Muslim consumers seeking ethical home financing solutions. Additionally, traditional home financing processes can be time-consuming and require multiple layers of approvals, causing delays in securing homeownership.

Solution: CIMB Islamic, one of Malaysia's leading Islamic banks, offers various Shariah-compliant home financing products, including Flexi Home Financing-i. This product is based on tawarruq (commodity murabahah), a cost-plus-profit financing arrangement that aligns with Islamic principles while providing flexibility similar to conventional home loans. The financing model allows customers to manage repayments efficiently while ensuring compliance with Shariah requirements.

To enhance accessibility and efficiency, CIMB Islamic has integrated digital payment solutions into its financing ecosystem. One such innovation is the CIMB Partner Pay solution, which enables users to convert their smartphones into mobile wallets by linking their CIMB cards to Samsung Pay. This feature facilitates secure, seamless transactions, enhancing customer convenience. Additionally, CIMB's mobile banking app allows users to monitor their loan applications, make payments, and manage their finances in real time.

Blockchain in Islamic Crowdfunding

Problem: Access to financing remains a significant challenge, particularly for individuals and businesses seeking Shariah-compliant investment opportunities. Traditional banking systems often impose high barriers to entry, making it difficult for startups, small enterprises, and social housing projects to secure funding. Additionally, conventional crowdfunding platforms may not fully adhere to Islamic financial principles, such as the prohibition of interest (riba), excessive uncertainty (gharar), and speculative activities (maysir). This creates a gap in the market for ethical, transparent, and Shariah-compliant investment solutions.

Solution: To address these challenges, Ethis Malaysia, part of the Ethis Group, became Malaysia's first Shariah-compliant equity crowdfunding platform. It operates as a Recognized Market Operator (RMO) under the Securities Commission Malaysia, providing an alternative financing mechanism that aligns with Islamic values. Ethis also runs regulated investment platforms in Indonesia, Malaysia, and Dubai, along with the Global Sadaqah charity platform.

One of the key innovations in Ethis Malaysia's platform is its integration of blockchain technology into crowdfunding. Blockchain ensures transparency, security, and accountability in financial transactions by creating an immutable ledger. This technology enhances investor confidence by reducing the risk of fraud and ensuring that funds are directed toward ethical and Shariah-compliant projects. Smart contracts, an application of blockchain, further streamline crowdfunding by automating contractual agreements between investors and project owners, eliminating the need for intermediaries and reducing operational costs.

Impact: The implementation of blockchain-based Islamic crowdfunding has significantly improved financial inclusion, providing a secure and accessible investment avenue for individuals, corporations, and government entities. By democratizing access to capital, Ethis Malaysia enables small businesses, social housing developers, and ethical enterprises to obtain funding that aligns with Islamic values.

Furthermore, this model bridges the gap between rich and poor, urban and rural communities, and different socioeconomic groups by allowing a broader pool of investors to participate in ethical and socially responsible financing.

In conclusion, the combination of blockchain technology with Islamic crowdfunding principles not only fosters a transparent and ethical financial ecosystem but also strengthens Shariah-compliant capital markets. By leveraging digital innovation, Ethis Malaysia has positioned itself as a pioneer in Islamic fintech, offering a sustainable and inclusive alternative to conventional investment methods.

Maybank Islamic's HouzKEY: A Shariah-Compliant Alternative for Homeownership

Problem: Many Malaysians, especially first-time homebuyers, struggle with homeownership due to high upfront costs, stringent financing requirements, and rising property prices. Conventional home loans often require a significant down payment, making it difficult for low- and middle-income earners to secure financing. Additionally, interest-based mortgages do not align with Shariah principles, leaving Muslim homebuyers with limited alternatives for ethical home financing.

Solution: To address these challenges, Maybank Islamic introduced HouzKEY, a Shariah-compliant home financing solution based on the Ijarah Muntahiyah Bi Tamlik contract, a lease-to-own structure. Unlike conventional loans, HouzKEY offers 100% financing, eliminating the need for a down payment and making homeownership more accessible. Additionally, buyers do not need to make payments during the construction period, reducing their financial burden before the property is completed.

The financing structure allows homebuyers to lease the property from the bank with the option to purchase it later. Initially, the scheme starts with a 5-year tenure, providing flexibility for buyers to assess their financial situation. They can then extend the tenure for up to an additional 30 years, with a maximum financing period of 35 years or until the borrower reaches 70 years old, whichever comes first. HouzKEY applies to properties from partnering developers, covering both new and under-construction homes, ensuring that buyers have access to a wide range of housing options.

Impact: HouzKEY provides a more flexible and affordable homeownership pathway, particularly for those who cannot afford a large down payment or who prefer a gradual transition to ownership. By offering an alternative to interest-based loans, it aligns with Shariah principles, promoting ethical and inclusive financial solutions. Additionally, by eliminating payments during the construction phase, the scheme reduces financial strain on buyers, allowing them to save or invest elsewhere before committing to full ownership.

By integrating a lease-to-own model with Islamic financing principles, HouzKEY bridges the gap between affordability and accessibility in Malaysia's housing market. It represents an innovative and sustainable approach to home financing, supporting the broader goal of financial inclusion and responsible homeownership within the Islamic banking framework.

Peer-to-Peer (P2P) Lending by Fundaztic: Enhancing Financial Access for MSMEs

Problem: Access to financing remains a major challenge for micro, small, and medium enterprises (MSMEs), particularly those seeking Shariah-compliant funding options. Traditional banking institutions often impose strict collateral requirements and lengthy approval processes, making it difficult for small businesses to secure the funds they need for expansion. Additionally, interest-based financing does not align with Islamic financial principles, limiting ethical and faith-compliant funding alternatives for Muslim entrepreneurs.

Solution: To address these challenges, Fundaztic introduced BizGrow-i 1.0, a Shariah-compliant P2P lending solution designed to provide ethical and accessible financing for MSMEs. This platform offers funding sizes ranging from RM20,000 to RM200,000, catering to businesses at different growth stages. Unlike conventional loans, BizGrow-i 1.0 adheres to Islamic financial principles, ensuring that transactions remain free from interest (riba), excessive uncertainty (gharar), and speculative activities (maysir).

The flexible repayment tenures range from 6 to 12 months, allowing businesses to manage their finances more effectively without facing long-term financial burdens. By leveraging P2P lending, Fundaztic connects MSMEs directly with investors, eliminating intermediaries and reducing costs. This efficient and transparent funding model enhances financial inclusion by offering quick and accessible financing to entrepreneurs who may otherwise struggle to obtain funding through conventional means.

Impact: BizGrow-i 1.0 serves as a catalyst for business growth, enabling MSMEs to expand operations, invest in new opportunities, and strengthen their financial standing. By providing a Shariah-compliant alternative to conventional loans, it promotes ethical financing and financial inclusivity within Malaysia's Islamic finance ecosystem. Furthermore, the P2P model democratizes access to capital, allowing a broader range of businesses to secure funding without reliance on traditional banks.

By combining Islamic financial principles with digital innovation, Fundaztic's BizGrow-i 1.0 contributes to the sustainable development of Malaysia's MSME sector, ensuring that small businesses can thrive while adhering to ethical financial practices.

FINDINGS

This study draws insights from interviews with financial experts, policymakers, Shariah scholars, fintech entrepreneurs, and banking professionals from institutions such as Bank Negara Malaysia (BNM), Maybank Islamic, CIMB Islamic, and Islamic fintech start-ups. The respondents were selected based on their expertise in Islamic finance, Shariah compliance, digital payment technologies, and regulatory frameworks. Their perspectives provide a comprehensive understanding of the challenges, opportunities, and real-world applications of Shariah-compliant home financing and fintech solutions.

Furthermore, this section presents the key findings from the qualitative analysis, focusing on the role of Shariah-compliant financing models and digital payment technologies in addressing housing affordability in Malaysia. The thematic analysis conducted from expert interviews, case studies, and document reviews highlights critical challenges, potential solutions, and the impact of integrating Islamic financial principles with fintech innovations. The findings emphasize three major themes: limited awareness and adoption of Shariah-compliant home financing, the role of digital payment technologies in improving efficiency and accessibility, and the challenges in implementing Islamic fintech solutions. Additionally, the case studies are analysed to illustrate real-world applications of these financial models.

Limited Awareness and Adoption of Shariah-Compliant Home Financing

One of the major findings in this study is the low awareness and slow adoption of Shariah-compliant home financing models among potential homeowners. Despite Malaysia being a global leader in Islamic finance, many consumers are still unfamiliar with financial instruments such as Murabaha, Ijara, and Diminishing Musharakah. Interviews with financial experts and policymakers revealed that conventional banking systems dominate the home financing sector, leading to a lack of understanding and limited promotion of Islamic alternatives. Consumers often default to conventional mortgage

products due to their accessibility and widespread market presence, despite the availability of Shariah-compliant alternatives that offer ethical, interest-free structures.

In addition to consumer awareness, financial institutions themselves face challenges in aggressively promoting Islamic home financing. Many banks view Shariah-compliant home financing products as complex and requiring specialized expertise to structure and manage. Some financial institutions hesitate to invest in the necessary infrastructure and training to support these products, leading to a slow rate of adoption. Moreover, experts highlighted that regulatory compliance and certification processes add layers of complexity, making these products less attractive for banks to market extensively. As a result, the adoption of Islamic financing models remains relatively low, and consumers continue to rely on conventional financing due to its perceived simplicity and ease of access.

A further challenge stems from the misconception that Islamic home financing is more expensive than conventional mortgages. Many prospective homebuyers believe that profit-sharing arrangements in Murabaha and Ijara financing models result in higher overall costs. However, experts argue that when evaluated over the long term, these models provide more financial stability and ethical financing, particularly in times of economic uncertainty. To address this gap, financial literacy programs and awareness campaigns are essential to educate potential homeowners on the benefits and mechanisms of Shariah-compliant financing.

The Role of Digital Payment Technologies in Enhancing Efficiency and Accessibility

Another key theme emerging from this research is the transformative role of digital payment technologies in improving the efficiency, accessibility, and affordability of housing finance. Blockchain, mobile banking, and peer-to-peer (P2P) lending have been identified as the leading innovations reshaping financial transactions in Islamic finance. These technologies not only streamline financial processes but also enhance security, transparency, and trust of fundamental principles in Shariah-compliant finance.

Blockchain technology, particularly through smart contracts, has been highlighted as a promising solution for addressing inefficiencies in housing transactions. Experts emphasized that blockchain offers an immutable, transparent ledger system that can reduce fraud, minimize delays, and lower transaction costs by eliminating intermediaries. The use of smart contracts ensures that terms of financing agreements are automatically enforced, reducing disputes and enhancing consumer confidence. However, despite its potential, blockchain adoption in Malaysia remains limited due to regulatory uncertainties and the need for a well-defined legal framework to govern digital asset transactions in Islamic finance.

Mobile banking is another key enabler of financial inclusion, especially for low-income and underserved populations. The increasing penetration of smartphones and digital banking services has created opportunities for expanding Shariah-compliant financing options to a broader segment of the population. Through mobile banking applications, consumers can apply for home financing, make secure payments, and monitor their transactions in real time. Experts noted that integrating digital payment solutions within Islamic finance platforms enhances user experience and accessibility, particularly for individuals in rural areas who may have limited access to traditional banking services. However, while mobile banking has significantly improved convenience, concerns regarding cybersecurity, fraud prevention, and Shariah compliance remain areas that require further development.

Peer-to-peer (P2P) lending platforms also play an emerging role in providing Shariah-compliant alternatives to conventional financing. By connecting borrowers directly with investors, P2P lending eliminates the need for traditional banking intermediaries, thereby reducing financing costs. Experts

highlighted that P2P lending aligns well with Islamic principles of risk-sharing and ethical investment. However, its widespread adoption depends on regulatory support and consumer confidence. Many potential investors and homebuyers remain skeptical about the security and reliability of P2P platforms, emphasizing the need for greater transparency and legal protections in this space.

Challenges in Implementing Shariah-Compliant Fintech Solutions

Despite the potential benefits of integrating digital payment technologies with Shariah-compliant financing, several challenges hinder their full implementation. Regulatory barriers remain a primary concern, as existing legal frameworks often struggle to keep pace with the rapid evolution of financial technologies. Ensuring that fintech solutions comply with both Islamic finance principles and national financial regulations requires continuous engagement with regulatory bodies such as Bank Negara Malaysia (BNM) and the Securities Commission Malaysia (SCM). Experts highlighted those clearer guidelines and structured regulatory sandbox are necessary to facilitate innovation while maintaining compliance with Shariah standards.

Cybersecurity and data protection are also pressing challenges in the adoption of digital financial solutions. With increasing digital transactions, the risk of cyber threats, fraud, and data breaches poses significant concerns for both consumers and financial institutions. Ensuring robust encryption, authentication mechanisms, and compliance with Shariah guidelines for secure digital transactions is crucial to building consumer trust. Financial institutions must invest in advanced cybersecurity infrastructure to safeguard sensitive financial data and maintain credibility within the market.

Additionally, market readiness and adoption remain barriers to large-scale implementation. Many consumers, particularly in lower-income groups, may lack the digital literacy required to fully utilize fintech solutions. Experts suggested that government-led digital financial literacy programs and financial incentives could accelerate adoption rates. Furthermore, traditional banks and financial institutions may resist adopting new technologies due to the high initial investment costs associated with integrating fintech solutions with existing banking systems. Addressing these structural challenges requires collaboration between financial institutions, technology providers, and policymakers to create a sustainable ecosystem for Islamic fintech innovation.

Insights from Case Studies on Shariah-Compliant Financing and Payment Technologies

Case studies from leading institutions such as CIMB Islamic, Ethis Malaysia, Maybank Islamic's HouzKEY, and Fundaztic provide real-world examples of how Shariah-compliant financing and digital payment technologies are being applied to address housing affordability. Each initiative highlights key challenges and the innovative solutions implemented to overcome them.

CIMB Islamic's Flexi Home Financing-i tackles the challenge of aligning home financing with Islamic principles by adopting Tawarruq-based structures, while also incorporating digital banking solutions for seamless transactions. Ethis Malaysia's blockchain-based crowdfunding platform addresses financing accessibility by enabling community-driven investments in social housing projects. Maybank Islamic's HouzKEY initiative reduces the financial burden on first-time homebuyers through a lease-to-own model, eliminating the need for down payments and upfront costs. Fundaztic's P2P lending platform expands access to ethical financing for small businesses and individuals seeking alternative investment opportunities.

Each of these case studies demonstrates the effectiveness of integrating Islamic finance principles with fintech innovations to create inclusive, accessible, and cost-effective housing solutions. However, their

long-term sustainability depends on regulatory support, market adoption, and continued technological advancements.

The findings suggest that while Shariah-compliant financing models and digital payment technologies have significant potential to address Malaysia's housing affordability crisis, their adoption remains constrained by regulatory, market, and technological challenges. Enhancing consumer awareness, strengthening regulatory frameworks, and improving cybersecurity infrastructure are critical steps toward scaling these solutions. By fostering collaboration among financial institutions, fintech firms, and policymakers, Malaysia can position itself as a leader in ethical and innovative housing finance solutions that align with both Islamic principles and economic sustainability.

FUTURE TRENDS, CONCLUSION, AND RECOMMENDATIONS

The future of Shariah-compliant payment technologies in Malaysia presents significant opportunities, particularly in addressing housing affordability through innovative and ethical financial solutions. The convergence of Islamic finance principles with cutting-edge financial technologies (fintech) is set to transform the financial landscape, offering more inclusive, transparent, and cost-effective financing alternatives. Key technological advancements, such as blockchain, digital banking, peer-to-peer (P2P) lending, and artificial intelligence (AI), will play a crucial role in enhancing accessibility to Shariah-compliant housing finance.

Blockchain technology is expected to revolutionize Shariah-compliant financing by ensuring transparency, security, and compliance with Islamic principles. In Malaysia, the adoption of blockchain in housing finance is gaining traction, particularly in streamlining property transactions and smart contracts. The ability of blockchain to reduce the need for intermediaries can significantly lower transaction costs while improving efficiency. By ensuring that financial transactions are tamper-proof and adhere to Shariah guidelines, blockchain increasing focus on leveraging blockchain technology in Malaysia reflects a broader commitment to adopting digital solutions that align with ethical and religious values.

Digital banking and mobile financial services (DFS) are also expanding rapidly to meet the evolving needs of consumers. With increasing smartphone penetration and internet accessibility, digital banking platforms provide a seamless and convenient way to access Shariah-compliant financial services. These platforms enable real-time transactions, personalised financial products, and enhanced user experiences while promoting financial inclusion, particularly among underserved populations in rural areas. By offering accessible and affordable housing finance solutions, mobile banking plays a vital role in bridging the financial gap and ensuring that more Malaysians can benefit from ethical financial solutions.

The rise of alternative financing methods, such P2P lending and crowdfunding, further enhances opportunities in the Shariah-compliant financial ecosystem. These platforms offer a more direct and community-driven approach to financing, allowing borrowers and investors to connect without relying solely on traditional banks. By reducing financial intermediation, P2P lending and crowdfunding lower financing costs and create a more inclusive environment for homeownership. The collaborative nature of these platforms aligns well with the ethical foundations of Islamic finance, fostering a sense of shared responsibility and promoting investments that benefit the wider community.

AI and big data analytics are also set to play a transformative role in Shariah-compliant financing by improving risk assessment models and enhancing decision-making processes. AI-driven financial solutions can offer fairer and more accurate credit evaluations that align with Islamic principles of

justice and transparency. Big data analytics can help financial institutions understand market trends, consumer behaviors, and potential risks, allowing for better-designed financial products and services. These technological advancements contribute to a more efficient and inclusive financial system that supports housing affordability initiatives.

As digital financial services continue to expand, ensuring strong cybersecurity measures is paramount. Protecting sensitive financial data and preventing fraudulent activities are critical to maintaining consumer trust. The implementation of advanced encryption technologies, secure authentication methods, and continuous monitoring systems is necessary to safeguard digital transactions. By prioritizing cybersecurity, financial institutions can foster greater confidence in digital Shariah-compliant financial products and encourage wider adoption of fintech solutions.

To successfully integrate Shariah-compliant fintech solutions into the housing sector, regulatory frameworks must continue to evolve to support innovation while maintaining adherence to Islamic financial principles. Institutions such as Bank Negara Malaysia and the Securities Commission Malaysia play a vital role in shaping policies that encourage the growth of fintech while ensuring compliance with Shariah guidelines. Regulatory sandboxes, which provide a controlled environment for testing new financial technologies, are crucial in fostering innovation and allowing for the development of sustainable and compliant financial products. Strengthening regulatory oversight while promoting innovation will ensure that Malaysia remains at the forefront of Shariah-compliant fintech advancements. Consumer education is another key factor in the successful adoption of Shariah-compliant fintech solutions. Public awareness campaigns and financial literacy programs should be enhanced to educated consumers on the benefits and functionalities of digital Islamic financial products. Ensuring that individuals understand how these technologies align with their ethical and religious values will help build trust and encourage broader participation in Shariah-compliant financial services.

Malaysia's position as a leading Islamic finance hub also presents opportunities for international collaboration and market expansion. Strategic partnerships with global Islamic financial institutions can facilitate knowledge sharing, co-development of financial products, and access to larger markets. Recent initiatives, such as Malaysia's collaboration with the Islamic Development Bank Group (IsDB), highlight the country's commitment to advancing Islamic finance on a global scale. These partnerships are expected to drive innovation, foster economic development, and provide more comprehensive solutions to housing affordability challenges.

In conclusion, the integration of Shariah-compliant financing and fintech solutions holds great potential in addressing Malaysia's housing affordability crisis. The adoption of blockchain, digital banking, P2P lending, AI, and robust cybersecurity measures will enhance financial accessibility while maintaining compliance with Islamic principles. Strong regulatory support, consumer education, and international collaborations will further strengthen the sector, ensuring that ethical and innovative financial solutions contribute to a more inclusive housing market. By embracing technology while upholding the values of Islamic finance, Malaysia is well-positioned to lead the way in creating a sustainable and equitable financial ecosystem that benefits society as a whole.

ACKNOWLEDGEMENT

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

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