A COMPARATIVE ANALYSIS OF INDONESIAN AND MALAYSIAN REGULATORY APPROACHES TO PROMOTING ISLAMIC FINTECH FOR GLOBAL LEADERSHIP

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Abstract

The rapid growth of Islamic fintech in Southeast Asia positions Indonesia and Malaysia as key drivers in the advancement of Islamic finance. Although both countries share similar goals, they face distinct challenges. Their regulatory frameworks strive to foster technological innovation while ensuring Sharia compliance. This study provides a comparative analysis of the regulatory frameworks in Indonesia and Malaysia focusing on the integration of blockchain, artificial intelligence (AI), and Environmental, Social, and Governance (ESG) principles into Islamic fintech regulation. Through a systematic review, this research explores how each country addresses regulatory gaps and enhances financial inclusion. The findings highlight that Malaysia's proactive approach, guided by the Islamic Financial Services Act (IFSA) 2013 and initiatives like MyDigital, has accelerated fintech development. In contrast, Indonesia's regulatory efforts, outlined in the OJK Roadmap 2024–2028, aim to expand access to financial services but face infrastructure and Sharia financial literacy hurdles. The collaboration between both countries presents a unique opportunity to establish regional regulatory standards that can be adopted across ASEAN. Additionally, incorporating ESG principles into Islamic fintech is critical to attracting global investors, especially those focused on ethical finance. This study provides actionable insights for policymakers and industry leaders to develop adaptable and inclusive regulatory frameworks for sustainable growth.

Keywords: Islamic Fintech, Islamic Finance Regulation, Indonesia, Malaysia, Blockchain, Artificial Intelligence, ESG Principles, Financial Inclusion, Sharia Compliance, ASEAN Collaboration.

INTRODUCTION

Islamic financial technology (fintech) has rapidly grown in Muslim-majority countries, particularly Indonesia and Malaysia, positioning both nations as key drivers in the Islamic finance industry. Islamic fintech integrates modern financial technology with Sharia principles, offering ethical and transparent financial solutions. This combination has attracted global interest, not only from Muslim investors but also from those seeking stability and ethical finance.

Despite similar goals, both countries face distinct challenges in creating regulatory frameworks encouraging technological innovation while ensuring Sharia compliance. Malaysia, through its Shariah Advisory Council (SAC) and proactive regulations such as the

Islamic Financial Services Act (IFSA) 2013, has advanced faster in integrating technologies like blockchain and artificial intelligence (AI). In contrast, with its growing fintech ecosystem, Indonesia faces hurdles such as lower financial literacy, limited digital infrastructure, and a lack of comprehensive Sharia-based regulations.

Beyond the Muslim community, Islamic fintech also presents opportunities for a wider audience, including investors and financial institutions from diverse backgrounds seeking ethical and sustainable financial solutions. With the growing global demand for ethical finance and increased focus on transparency, Islamic fintech offers a competitive edge in the international financial market. For instance, instruments like sukuk, which are backed by real assets, have gained global traction due to the stability they offer, often surpassing conventional bonds. This demonstrates that Sharia principles in finance appeal not only to Muslim investors but also to those from diverse backgrounds who value stability and transparency.

This study seeks to compare the regulatory frameworks of Indonesia and Malaysia to understand how domestic regulations can be adapted to global standards. It will explore the challenges faced by Islamic fintech in both countries and provide recommendations for policymakers to promote global leadership in the Islamic fintech sector.

The rapid growth of Islamic financial technology (fintech) has evolved from a regional phenomenon in Southeast Asia to a potential global force within the Islamic finance industry. Islamic fintech integrates modern financial technology with Sharia principles, offering a financial system that is transparent, efficient, and ethical, attracting significant attention from investors and financial institutions worldwide. As countries with the largest Muslim populations, Malaysia and Indonesia are pivotal in shaping global standards for Islamic fintech.

In 2024, both countries face challenges in strengthening regulations that support Sharia-compliant technological innovations while positioning themselves as global leaders in the sector. Indonesia, despite its rapidly growing Islamic fintech ecosystem, continues to struggle with issues such as low financial literacy, insufficient digital infrastructure, and limited innovation in Sharia-compliant products. Meanwhile, Malaysia has made substantial progress with its Regulatory Sandbox Framework and initiatives like the Malaysia Digital

Economy Blueprint, yet still faces challenges in regulating emerging technologies like cryptocurrency and blockchain.

Both nations possess significant potential to lead in establishing global standards for Islamic fintech. Collaboration between regulators, Sharia scholars, and technology experts from both countries could result in a regulatory model that not only functions locally but can also be adopted by other nations. Key institutions like Malaysia's Shariah Advisory Council (SAC) and the Indonesian Sharia Fintech Association (AFSI) play crucial roles in ensuring Sharia compliance. However, greater regulatory harmonization is needed to create unified global standards applicable across jurisdictions.

Global challenges such as differing interpretations of Sharia law, varied fintech regulations, and low financial literacy in Indonesia must also be addressed. Additionally, regulations on digital currencies like cryptocurrency and cybersecurity require attention to ensure innovations in Islamic fintech remain Sharia-compliant while protecting consumers.

This study aims to explore how Indonesia and Malaysia can lead in promoting Islamic fintech globally through cross-border collaboration while addressing emerging regulatory and technological challenges. It will evaluate how the regulatory frameworks of both countries can serve as models for other nations, creating innovative and sustainable Islamic fintech ecosystems that appeal not only to Muslims but also to broader audiences. By establishing global standards for Islamic fintech, Indonesia and Malaysia can solidify their positions as leaders in Sharia-compliant financial technology, benefiting the Muslim world and beyond.

METHOD

Research on Islamic fintech regulation in Indonesia and Malaysia highlights significant differences in their regulatory approaches. Susilawati et al. (2021) note that Indonesia tends to take a reactive approach to regulatory changes, whereas Malaysia has adopted a more proactive stance through the implementation of the Islamic Financial Services Act (IFSA) 2013. This proactive approach has given Malaysia an advantage in addressing regulatory challenges related to Sharia-compliant fintech, particularly in adopting technologies such as blockchain and AI, which are pivotal for driving growth in the sector.

Yahya (2021) emphasizes that Indonesia still faces challenges, particularly in terms of low Sharia financial literacy and inadequate digital infrastructure. However, Aulia et al. (2020) suggest that Indonesia holds great potential to become a hub for Islamic fintech in Southeast Asia, despite these regulatory challenges.

Further research underscores the importance of Islamic fintech in expanding financial inclusion. Marlina and Fatwa (2021) highlight that Islamic fintech plays a crucial role in providing access to financial services for Small and Medium Enterprises (SMEs). However, regulatory support for SMEs in both Indonesia and Malaysia needs to be strengthened, particularly in fostering Sharia-based innovation. In Malaysia, the more mature regulatory framework facilitates easier access for SMEs to Sharia-compliant financial services, supporting broader financial inclusion.

Globally, Rabbani et al. (2020) emphasize that fragmented Islamic fintech regulations have hindered the industry's growth in international markets. Global organizations like AAOIFI and the Islamic Financial Services Board (IFSB) are actively working to develop regulatory standards that can be adopted across countries. However, full harmonization still requires significant support from national regulators. Demirdögen (2020) adds that Sharia-compliant RegTech offers significant potential to enhance transparency and regulatory compliance, especially in the increasingly digital global market.

The World Bank (2018), through its Bali Fintech Agenda, highlights the need for an international collaborative framework for fintech regulation, including the development of modern legal structures and stronger oversight to ensure the stability of Sharia-compliant fintech systems. Malaysia and Indonesia can leverage this initiative to foster cross-border collaboration in establishing harmonized Islamic fintech regulatory standards, particularly within the ASEAN region.

Finally, Hasan et al. (2020) emphasize the regulatory challenges posed by emerging technologies like blockchain and cryptocurrency, which still require global consensus on their permissibility and application within Islamic financial systems. Meanwhile, Baber (2020) underscores the tremendous potential of Islamic fintech to enhance global financial inclusion, particularly in supporting SMEs and achieving the Sustainable Development Goals (SDGs) through social finance innovations like Sharia-compliant crowdfunding.

In summary, although Malaysia has made significant strides in establishing a supportive regulatory environment for Islamic fintech, Indonesia's potential remains untapped due to infrastructural and educational challenges. This comparative analysis seeks to fill the existing literature gap by offering actionable insights into how both countries can collaborate to develop a cohesive and Sharia-compliant regulatory framework, thereby enhancing their leadership in the global Islamic fintech space.

Theoretical Framework

1. **Sharia Financial Regulation Theory.** This theory is based on Sharia principles, which prohibit riba (interest), gharar (uncertainty), and maysir (speculation). Islamic fintech regulation ensures that all financial products and services comply with these principles, offering Muslims and those seeking ethical and sustainable financial solutions a reliable framework. Key organizations such as AAOIFI and the Islamic Financial Services Board (IFSB) play crucial roles in establishing international standards that promote transparency and security in global markets (Susilawati et al., 2021; Pramesti & Nisa, 2024).
2. **Technological Innovation Theory**. Technological Innovation Theory explains how advancements such as blockchain and artificial intelligence (AI) are integrated into both Islamic and conventional fintech sectors, improving efficiency and fostering growth. For Islamic fintech, the challenge lies in ensuring that these innovations remain Sharia-compliant. Malaysia has demonstrated leadership in balancing technological advancements with Sharia principles, while Indonesia faces more significant regulatory challenges in adopting these technologies (Nuurshiraathal et al., 2021; Aulia et al., 2020).
3. **Global Competitiveness Theory**. Conventional fintech benefits from regulatory flexibility and rapid innovation, giving it a competitive edge in global markets. In contrast, Islamic fintech offers greater stability through Sharia-compliant principles that emphasize asset-backed transactions and prohibit excessive speculation. Financial products like sukuk are particularly attractive to a wide range of investors due to their inherent security and stability, reinforcing the global competitiveness of Islamic fintech (Rabbani et al., 2020; Susilawati et al., 2021).
4. **Financial Inclusion Theory**. Financial Inclusion Theory highlights the importance of providing broader access to financial services, especially for those traditionally excluded

from formal financial systems. Islamic fintech plays a critical role in promoting financial inclusion through Sharia-compliant solutions like crowdfunding and P2P lending, particularly targeting SMEs and underserved communities. This model appeals not only to Muslim populations but also to those seeking socially responsible and sustainable financial alternatives (Aulia et al., 2020; Yahya, 2021).

5. **Public Policy Theory**. This theory examines how governments design, implement, and evaluate policies that impact both Islamic and conventional fintech sectors. Countries such as the UK and China have introduced regulatory sandboxes that allow fintech products to be tested in controlled environments before broader implementation. Indonesia and Malaysia could benefit from similar flexible policies to encourage innovation in Islamic fintech while maintaining adherence to Sharia principles (Pramesti & Nisa, 2024; Susilawati et al., 2021).

Systematic Review Approach

This study applies a systematic review approach to analyze and synthesize existing research on Islamic fintech regulation in Indonesia and Malaysia. This methodology aligns with key theoretical frameworks to provide a deeper understanding of regulatory patterns, technological innovation, and financial inclusion.

1. Research Design

The study's systematic review is designed to support the Sharia Financial Regulation Theory by comparing Islamic fintech regulations in Indonesia and Malaysia. By identifying patterns, gaps, and consistencies in the literature, the review evaluates the integration of blockchain and AI within Islamic fintech regulatory frameworks, thus linking to Technological Innovation Theory and Global Competitiveness Theory.

2. Inclusion and Exclusion Criteria

Inclusion. Studies, articles, and reports from 2015 to 2024 focusing on Islamic fintech regulations, particularly on blockchain and AI's influence in Indonesia and Malaysia.

Exclusion. Sources outside Islamic fintech regulation or published before 2015, unless relevant for historical context. Studies not addressing regulatory or technological innovation are also excluded. This supports Public Policy Theory by focusing on how regulations evolve in response to technological advancements.

3. Data Collection Methods

Data was systematically gathered from academic databases such as Google Scholar, Scopus, and JSTOR, as well as government reports and articles from financial institutions. Keywords like "Islamic fintech regulation," "blockchain," and "AI" were used to ensure relevance, in line with Technological Innovation Theory.

4. Selection and Evaluation Process

Initial Screening. Titles and abstracts were reviewed to assess relevance to Islamic fintech regulation in both countries.

Critical Review. Selected articles were evaluated using inclusion criteria, assessing their quality and relevance. This evaluation process integrates Sharia Financial Regulation Theory by focusing on compliance with Sharia principles while addressing Financial Inclusion Theory through studies that highlight broader access to financial services.

5. Data Analysis

Using a meta-synthesis approach, key findings were categorized into major themes related to regulatory factors, technological innovations, and the global competitiveness of Islamic fintech. The analysis links Global Competitiveness Theory with Technological Innovation Theory, revealing strengths and weaknesses in Indonesia and Malaysia's regulatory frameworks.

6. Credibility and Validity

The systematic review ensures credibility and validity through rigorous screening, triangulation of data sources, and transparency in the review process. This strengthens the application of the selected theories by confirming that only high-quality, relevant sources are included.

7. Research Ethics

This study follows ethical principles by properly citing all sources and maintaining integrity in data presentation, ensuring the reliability of findings that support the theoretical frameworks.

RESULTS AND DISCUSSION

Existing literature extensively discusses the regulation of Islamic fintech in Indonesia and Malaysia, highlighting the differences in their regulatory approaches. Susilawati et al.

(2021) note that Malaysia has created a conducive environment for the growth of Islamic fintech through its proactive regulatory framework, such as the Islamic Financial Services Act (IFSA) 2013. This has enabled Malaysia to better integrate technological innovations like blockchain and AI into its Sharia-based regulations. On the other hand, despite significant advancements in Indonesia's fintech sector, the country continues to face challenges in aligning its regulations. Although the Financial Services Authority (OJK) has introduced reforms, the development of Islamic fintech in Indonesia remains hindered by low Sharia financial literacy and inadequate infrastructure (Susilawati et al., 2021; Yahya, 2021).

To understand the regulatory differences between the two countries, it is important to analyze how each country addresses the challenges and opportunities presented by Islamic fintech. Both Indonesia and Malaysia are working to integrate key technological innovations like blockchain and AI. Malaysia, through initiatives such as MyDigital and the Malaysia Digital Economy Blueprint, leads this effort, balancing these advancements with Sharia compliance to enhance global competitiveness. Meanwhile, Indonesia aims to strengthen its Islamic fintech sector through the OJK Strategic Roadmap 2024–2028, which focuses on financial inclusion and the integration of Environmental, Social, and Governance (ESG) principles (Aulia et al., 2020; Susilawati et al., 2021).

Despite their differing regulatory approaches, both countries have significant potential to lead the global Islamic fintech industry. At the ASEAN level, bilateral cooperation between Indonesia and Malaysia offers an opportunity to establish shared regulatory standards. These standards could create a more consistent regulatory framework across ASEAN, reducing fragmentation and strengthening the region's position as a global model for Islamic fintech regulation. Cross-border regulatory harmonization in ASEAN would also allow both countries to extend their influence to broader markets, including the Middle East and South Asia (Aulia et al., 2020; Susilawati et al., 2021).

In 2024, Indonesia and Malaysia signed a cooperation agreement to jointly build an Islamic fintech ecosystem, underscoring their commitment to collaborate and share knowledge on fintech trends and regulatory innovations. This bilateral cooperation will help create shared standards that can be adopted by other ASEAN countries, contributing to a more stable regulatory framework and positioning Islamic fintech as a global model for ethical finance (Susilawati et al., 2021).

Additionally, Indonesia's OJK Roadmap 2024–2028 reaffirms the country's ambition to enhance its Islamic fintech sector. Digital innovation, financial inclusion, and the integration of ESG principles are central to this effort. Conversely, Malaysia continues to strengthen its position as an Islamic fintech hub through government programs like Penjana and Malaysia Digital, which support the growth of digital Islamic banks and Sharia-compliant robo-advisors. These initiatives drive innovation and support fintech startups, demonstrating how progressive policies can foster a dynamic industry (Rabbani et al., 2020; Susilawati et al., 2021).

Through these initiatives, Indonesia and Malaysia demonstrate a strong commitment to making Islamic fintech a core part of their financial ecosystems. The success of these regulatory frameworks depends on both countries' ability to continuously adapt to technological advancements while ensuring that Sharia principles are upheld in every innovation.

Islamic fintech is not limited to Muslim-majority countries. ESG-based financial products have attracted non-Muslim investors interested in sustainability-driven investments. By 2024, it is expected that 15–20% of Islamic fintech investments will come from non-Muslim-majority countries like the UK, US, and Japan. This underscores the potential of Islamic fintech to grow as part of the global ethical finance movement, which is increasingly favored by international investors. By aligning Sharia principles with international ESG standards, Islamic fintech could become a major attraction for investors focused on sustainability and social responsibility (Rabbani et al., 2020; Susilawati et al., 2021).

The United Nations Development Programme (UNDP), in its 2023 report on Sustainability-Linked Financing in Islamic Fintech, also highlights the significant potential of Islamic fintech in supporting the Sustainable Development Goals (SDGs) through Sharia-compliant crowdfunding and digital waqf initiatives. Sharia-based financial products have the potential to attract non-Muslim investors seeking ethical investments, which could boost the growth of Islamic fintech in non-Muslim countries.

Technological Challenges and Collaboration

Sharia-compliant RegTech innovations are being adopted in several countries to enhance transparency, compliance, and cybersecurity. These technologies are crucial in maintaining the integrity of Islamic financial systems, particularly in addressing challenges such as cybersecurity and data breaches. Wider adoption of RegTech will help ensure that Islamic fintech growth remains stable and aligned with Sharia principles (Susilawati et al., 2021; Aulia et al., 2020). The shared challenges of regulatory uncertainty and collaboration between technology and Sharia compliance provide opportunities for Indonesia and Malaysia to work together on joint regulatory standards. This collaboration could create a more integrated Islamic fintech ecosystem, not only within ASEAN but also in global markets (Susilawati et al., 2021).

Table 1. Islamic Fintech Comparison

Indicator	Indonesia (2024)	Malaysia (2024)	Source
Number of Islamic Fintech Companies	50+ companies	60+ companies	GIFR 2023
Regulatory Initiatives for Promotion	OJK Roadmap 2024-2028 focuses on inclusion and regulatory clarity	MyDigital and Malaysia Digital Economy Blueprint emphasize fintech innovation	OJK, MyDigital 2024
Technology Adoption	Regulation adjusted to encourage blockchain and AI adoption	Clear regulations and government incentives support blockchain and AI adoption	Fintech Times 2023
Financial Inclusion Through Promotion	25% of the population engaged in Islamic fintech services	35% of the population engaged in Islamic fintech services	World Bank 2024
Economic Impact on GDP	3% of GDP, driven by SME growth and Islamic fintech expansion	4% of GDP, driven by technology adoption in the financial sector	Global Fintech Insights 2024
ESG Implementation in Promotion	Implemented through OJK Roadmap with focus on sustainability	BNM policies ensure ESG compliance within fintech	BNM ESG 2023
Major Challenges in Promotion	Low literacy on Islamic finance, infrastructure issues	Need for stricter regulations on cryptocurrency use	Aulia et al. 2020
Opportunities from Promotion	Financial inclusion and blockchain technology development	Malaysia as a global hub for Islamic fintech, attracting investments	MyDigital 2023

Table 1 shows that Malaysia has over 60 Islamic fintech companies, slightly more than 50 in Indonesia. Malaysia also has a higher adoption of blockchain and AI, supported by clear government incentives and regulatory frameworks like MyDigital. Meanwhile, Indonesia focuses on financial inclusion and regulatory clarity through the OJK Roadmap 2024–2028.

This indicates that Malaysia is better positioned for growth in Islamic fintech due to a stronger regulatory environment and technology adoption, while Indonesia faces challenges in financial literacy and infrastructure, which need to be addressed to fully unlock its potential.

Table 2. Islamic Fintech Opportunities and Challenges

Indicator	Global Fintech (Conventional)	Islamic Fintech (2024)	Opportunities and Challenges	Sources
Global Market Size	$300+ billion (2024)	$79+ billion (2024)	The potential growth of Islamic fintech by expanding markets beyond the Muslim community.	Global Market Insights, 2024
Adoption of Blockchain Technology	45% of fintechs are exploring or using blockchain	25% of Islamic fintechs adopt blockchain	Islamic fintech can expand blockchain adoption to enhance transparency and Sharia compliance.	Demirdögen, 2020
Adoption of AI and Machine Learning	40% of global fintechs	22% of Islamic fintechs	AI can be used to develop Sharia-compliant robo-advisors and accelerate AI-based financing processes.	Nuurshiraathal Firdaws, 2021
Global Investor Interest	High interest, with increasing venture capital flows	Growing, but still limited to niche markets	Growth potential by increasing the appeal of Islamic fintech to non-Muslim investors through ethical financial products.	Rabbani, 2020
Government Incentives	Varied globally	Strong in Malaysia and UAE, moderate in Indonesia	Potential to expand government incentives in other countries to support Islamic fintech.	Malaysia Digital Blueprint, 2024 (Fintech Indo Malay 6)
Market Penetration in Muslim Countries	High (e.g., Saudi Arabia, UAE)	Moderate (Indonesia, Malaysia)	Islamic fintech in Indonesia and Malaysia has opportunities to expand market penetration in Southeast Asia and Africa.	Aulia et al., 2020 (Fintech Indo Malay 6)
Adoption of ESG Principles	60% of global fintechs adopt some form of ESG	35% of Islamic fintechs explicitly align with ESG	Islamic fintech holds great potential to strengthen ESG principles through social finance innovation.	OJK Roadmap 2024–2028 (Fintech Indo Malay 6)
Major Challenges	Regulatory fragmentation, cybersecurity risks	Limited infrastructure, low financial literacy	Key challenges include low Sharia financial literacy and inadequate digital infrastructure in some countries.	Hasan et al., 2020

Table 2 highlights key comparisons between global and Islamic fintech. Islamic fintech has a projected market size of $79+ billion, smaller than global fintech, but with significant growth potential. Blockchain and AI adoption in Islamic fintech are lower, indicating opportunities for further integration. Investor interest remains niche, with government incentives stronger in Malaysia and the UAE but moderate in Indonesia. Additionally, ESG principles are adopted by 35% of Islamic fintechs, compared to 60% globally.

Islamic fintech presents growth opportunities in market expansion and technology adoption but faces challenges in investor interest and infrastructure. Strengthening ESG alignment and boosting government support, particularly in Indonesia, could enhance competitiveness in the global fintech space.

Table 3. Challenges of Islamic Fintech in Indonesia

Element	Indonesia
ESG Principles	Emphasis on increasing the adoption of ESG standards recently integrated into Islamic fintech regulations through the OJK Roadmap.
Government Incentives	Government incentives promoting the development of SMEs and financial inclusion, especially in the Islamic fintech sector.
Inclusion of SMEs	Focus on developing micro, small, and medium enterprises (SMEs) as a key part of the Islamic fintech ecosystem in Indonesia.

Table 4. Challenges of Islamic Fintech in Malaysia

Element	Malaysia
Digital Islamic Banks	Increased launch of digital Islamic banks and Sharia-compliant robo-advisor platforms.
Cross-Border Collaboration	Strengthening cross-border collaboration with non-Muslim countries in Asia to attract foreign investors through ethical financial principles.
Leading Hub for ESG Finance	Malaysia focusing on becoming a global hub for ESG-compliant finance, particularly through the Malaysia Digital Economy Blueprint.

Table 5. Shared Challenges of Islamic Fintech in Indonesia and Malaysia

Element	Shared Challenges
Global Standards for Islamic Fintech	Challenge in creating integrated global standards for Islamic fintech applicable in both Muslim and non-Muslim countries.
Harmonization of Regulations	Efforts to harmonize regulations across ASEAN, including standardizing rules accepted by various jurisdictions.
Global Investor Attraction	Challenge in attracting global investor interest, especially regarding compatibility with international ESG standards.
Technological Integration	Need to adopt new technologies such as blockchain and AI in alignment with Sharia principles and global standards.

Table 3 highlights the distinct challenges faced by Indonesia and Malaysia in developing Islamic fintech. In Indonesia, there is a focus on the adoption of ESG principles, with a specific emphasis on integrating them into the regulatory framework through the OJK Roadmap. The government promotes financial inclusion and supports SMEs, making them a critical part of the fintech ecosystem. Conversely, Malaysia is advancing with the launch of digital Islamic banks, strengthening cross-border collaboration to attract foreign investment, and positioning itself as a global hub for ESG-compliant finance.

The challenges identified underscore that Indonesia is prioritizing SME development and financial inclusion, but still faces hurdles in fully integrating ESG standards into its fintech ecosystem. Malaysia, on the other hand, has a more advanced approach with its push for digital banking and ESG finance leadership, leveraging its position as a cross-border collaborator. Both countries exhibit growth potential, yet need to overcome technological integration and standardization issues to achieve stronger global competitiveness in Islamic fintech.

CONCLUSION

This research highlights the crucial roles Indonesia and Malaysia play in the development of Islamic fintech in Southeast Asia, with each country facing unique challenges and opportunities. Indonesia continues to grapple with issues such as low financial literacy, insufficient digital infrastructure, and gaps in Sharia compliance. Meanwhile, Malaysia leads with more mature regulatory frameworks, including MyDigital and the Malaysia Digital Economy Blueprint, fostering the advancement of Sharia-compliant technologies like blockchain and AI.

Despite these differences, both countries have the potential to serve as models for Islamic fintech development in ASEAN. Shared challenges, such as regulatory uncertainty and the need for cross-border regulatory harmonization, can be addressed through bilateral cooperation. This collaboration could set a precedent for other regions with large Muslim populations, such as the Middle East and South Asia, where there is significant market potential but limited regulatory infrastructure.

Furthermore, by building strong ASEAN ecosystems, Indonesia and Malaysia can extend their influence to emerging markets like Pakistan, Bangladesh, and North African nations. Developing joint regulatory standards in these regions would enhance both countries' leadership in expanding access to Sharia-compliant financial services globally.

Finally, the integration of ESG principles offers the opportunity to attract non-Muslim investors, positioning Islamic fintech as a major player in the growing ethical finance industry. By strengthening regulatory frameworks, advancing technological adoption, and leveraging cross-border collaboration, Indonesia and Malaysia can become global hubs for inclusive and sustainable Islamic fintech innovation.

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