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Riba in Online Lending Practice: An Analysis of Islamic Law and Sharia Financial Literacy Awareness in the Era of Digital Technology

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Abstract. This study analyzes online lending practices from the perspective of Islamic law and highlights the importance of Islamic financial literacy in the digital era. The rapid growth of online lending platforms has led to various problems, including high interest rates, unethical debt collection, and violations of personal data privacy. From the standpoint of Islamic jurisprudence, such practices contain elements of riba (usury), gharar (uncertainty), and zulm (injustice), which are inconsistent with the core principles of Islamic economic transactions. This research employs a library research method using a normative-juridical and fiqh muʿāmalah approach. Data are collected from primary sources, including the Qur'an, Hadith, DSN-MUI fatwas, and relevant regulations, as well as secondary sources such as scholarly books and academic journals. The data are analyzed through a qualitative-descriptive and deductive framework. The findings show that conventional online lending practices are not compatible with Sharia principles due to their interest-based mechanisms. In contrast, Islamic fintech offers Sharia-compliant alternatives through contracts such as mudharabah, musyarakah, and murabahah. Proper implementation under the supervision of the Sharia Supervisory Board and the Financial Services Authority can promote ethical, transparent, and just financing in line with the objectives of Islamic law (maqāṣid al-sharīʿah).

Keywords: Online Loans, Islamic Law, Riba, Sharia Fintech, Financial Literacy

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INTRODUCTION

The rapid growth of online lending services in recent years signals a profound transformation in the modern financial system, which now relies heavily on digital technology. The easy access and efficient processing speed of these services have made them very popular among various groups in society (Rahmawati; 2024). However, this convenience has also given rise to various new

problems stemming from illegal online lending practices: extremely high interest rates, inhumane debt collection methods, and privacy violations due to personal data leaks. Low financial literacy is one of the main reasons why people are vulnerable to such practices. The Financial Services Authority (OJK) emphasises that the public finds it difficult to distinguish between legal and harmful services due to a lack of knowledge about financial products (Otoritas Jasa Keuangan, 2025).

This situation highlights the importance of improving financial literacy based on sharia principles. According to Islamic law, transactions involving riba, gharar, and maisir not only violate sharia provisions, but can also cause social and economic inequality. Therefore, Islamic financial institutions (IFIs) play a strategic role in providing fair, transparent, and beneficial financing alternatives. Through educational programmes on Islamic economics, IFIs can help the public understand Sharia-compliant financial contracts and guide them through the process. Advances in digital technology have opened up vast opportunities to improve knowledge of Islamic finance (Huda dan Heykal, 2010).

Digital transformation has facilitated the education process by providing various online education platforms, social media, and interactive financial technology applications that are in line with Islamic sharia and easily accessible. However, research conducted by Zainol Asror (2025) shows that there are still many obstacles to overcome, ranging from a lack of cooperation between institutions, limited access to technology in remote, isolated, and disadvantaged areas, to a lack of educational materials that are appealing to the community as a whole (Asror, 2024). Thus, improving Islamic financial literacy in the digital age is not only a necessity, but also a strategic step to reduce the negative impact of online lending, both from a positive law and Sharia perspective. Strong and sustainable cooperation is needed between the OJK, KNEKS, Islamic financial institutions, and educational institutions (Komite Nasional Ekonomi dan Keuangan Syariah, 2025). This synergy is expected to create a comprehensive and modern financial education ecosystem based on Islamic values. This action not only protects the public from the trap of illegal loans but also builds a solid foundation for forming a national financial system that is fair, equitable, and in accordance with Islamic principles (Antonio, 2011).

METHOD

This study employs a library research method with a normative-juridical and Islamic jurisprudence (fiqh muʿāmalah) approach to analyze online lending practices based on Islamic law principles and applicable positive regulations. The research data are derived from primary legal sources, including the Qur'an, Hadith, DSN-MUI fatwas, and statutory regulations related to fintech lending; secondary legal sources such as books, peer-reviewed journal articles, and relevant prior studies on riba, online loans, and Islamic fintech; and tertiary sources comprising dictionaries, encyclopedias, and other supporting references. Data collection is conducted through systematic literature searching, inventorying, and classification, followed by qualitative-descriptive analysis using a deductive pattern—deriving general Islamic legal principles (the prohibition of riba, gharar, and zulm) to assess concrete online lending practices. This approach enables a comprehensive understanding of the incompatibility of conventional online lending with Sharia principles while examining Islamic fintech as a just and ethical alternative aligned with the objectives of Islamic law (*maqāṣid al-sharīʿah*).

RESULT AND DISCUSSION

Islamic Legal Review of Online Loans

An online loan is a debt or fund loan that requires a transaction process that is not face-to-face or virtual with the borrower. Initially, the lender will provide a certain amount of funds to the borrower, which will later be paid in instalments. The borrower must fill in their personal details

and attach a photograph, as well as other required documents, which will then be checked, analysed and verified by the online loan provider (Rahmawati, 2022). After obtaining approval and signing the loan agreement contract, the borrower is obliged to pay attention to and comply with the terms and conditions that have been made and agreed upon. This type of loan includes short-term, medium-term, and long-term loans, both secured and unsecured, based solely on trust. The collateral itself can be tangible or intangible. Online loan transactions refer to agreements that provide mutual benefits or advantages, usually in the form of services with certain fees known as interest, or other terms such as profit sharing. Most people use online loan services to meet their daily needs (Toha, 2023).

The ease and convenience of accessing online loans through mobile applications or websites attracts people to use them without fully considering the impact and risks they will face. This is because not all online loans come from legitimate companies or financial institutions. There are several legal consequences for borrowers who are unable to repay their debts, namely 1) Online lending companies will collect debt payments, starting with initial reminders and progressing to more intensive and aggressive collection efforts; 2) Online lending companies report borrowers to credit bureaus as required by the Financial Services Authority (OJK). This is done so that borrowers cannot access loans again; 3) High interest rates and continuously increasing penalties; 4) Pressure and intimidation by debt collectors; 5) Debt collection from people close to the borrower, such as family members and friends. 6) Online loan sanctions based on Law No. 39 of 1999 on Human Rights, Article 19, paragraph 2, which states that a person cannot be sentenced to prison simply because they are unable to pay their debts.

Online loans are classified as debt agreements as stipulated in Article 1754 of the Criminal Code. According to Islamic views, debt is a form of social interaction that exists in society in relation to the amount of wealth. The party providing the loan must do so sincerely, voluntarily and without expecting anything in return. Meanwhile, the borrower must repay the debt in accordance with the agreed amount and time, without any reduction or addition to the amount of the debt. Islam considers ignoring the obligation to repay debt to be a bad and irresponsible act. Therefore, it is important to think and consider carefully between the need and ability to pay the debt before borrowing.

Some Islamic scholars argue that interest on online loans is contrary to Islamic law, which prohibits usury. In fiqh studies, usury is defined as an additional or excess amount required in lending and borrowing transactions without a valid basis for compensation according to sharia law. Yusuf al-Qaradawi (1994) explains that usury is not merely a nominal addition, but a form of economic exploitation that creates social inequality and contradicts the principle of justice. The prohibition of this practice is emphasized in the Qur'an, Surah Al-Baqarah verse 275, which reads:

وَاَحَلَّ اللّٰهُ الْبَيْعَ وَحَرَّمَ الرِّبٰوا

Allāh has permitted trade and has forbidden interest.

The results of Siregar's (2021) research in the Journal of Sharia Law and Economics show that the interest system in online loans has characteristics identical to usury, as it stipulates additional payments that are not commensurate with the economic benefits received by the borrower (Siregar, 2021). Meanwhile, Nasution (2020) in the Al-Maslahah Journal highlights that usury practices in the modern era are often packaged with more subtle terms, such as "service fees" or "additional administrative fees." However, if these fees are required as a form of profit on money lending, they are essentially still classified as usury (Nasution, 2020).

Islamic Legal Analysis of Online Lending Practices

Financial transactions are considered valid in the perspective of muamalah fiqh if they fulfil the principles of justice (al-'adl), mutual consent (antarāḍin minkum), and are free from elements

of usury, gharar (uncertainty), and maysir (speculation). These principles form the main foundation for assessing the validity of modern economic practices, including online lending services (fintech lending), which are rapidly growing in society. On the one hand, online lending provides easy access to financing, but on the other hand, it raises various legal and ethical issues when viewed from the perspective of Islamic law.

Based on these criteria, conventional online lending practices generally contain a number of violations of the basic principles of Islamic muamalah. First, the element of usury is clearly evident in the determination of interest or additional compensation that has been determined since the beginning of the contract without any real business activity. This practice falls under the category of riba qardh, which is an additional charge on a loan that is strictly prohibited in Islam because it contradicts the principles of justice and mutual assistance. Secondly, there is an element of gharar in online loan agreements, particularly in relation to the lack of clarity regarding administrative fees, effective interest rates, late payment penalties, and the legal consequences of default. This lack of transparency places one party in this case, the borrower in a weak position and potentially at a disadvantage, thereby contradicting the principle of clarity of contract (bayān al-ʻaqd) in muamalah fiqh. Thirdly, online lending practices often contain elements of zulm (injustice), particularly in the collection mechanism. Intimidating collection tactics, the use of abusive language, and the disclosure of borrowers' personal data to third parties constitute violations of Islamic values of justice and morality. Islam emphasises that economic transactions are not only judged on the basis of legal and formal contracts, but also on moral and humanitarian dimensions.

The findings of Prasetyo and Khairunnisa (2022) in the Iqtishadia Journal further reinforce this analysis. They conclude that the majority of online lending services in Indonesia do not meet the characteristics of qardh hasan, which is a charitable loan given without compensation and oriented towards the principle of mutual assistance (taʻāwun). Instead, online loans are more oriented towards unilateral profit with risks that are disproportionately borne by borrowers (Prasetyo & Khairunnisa, 2021).

Online lending practices in this context can be considered unlawful under Sharia law because they contain elements of usury, gharar, and zulm. In addition, these practices tend to cause social and economic mafsadah (damage), especially for low-income communities. Therefore, it is necessary to develop a Sharia-based lending model that upholds the principles of justice, transparency, and benefit, so that financial technology innovation can be in line with Islamic values and the objectives of Sharia (maqāṣid al-syarīʻah).

Sharia Fintech Alternatives as Solutions

Islam rejects all forms of usury because it is considered oppressive and destructive to justice in economic transactions. Although Islam rejects usury, it does not oppose the development of financial technology. On the contrary, Islam encourages innovation based on justice, honesty and benefit (Dewan Syariah Nasional Majelis Ulama Indonesia, 2018).

In this context, Sharia fintech emerges as an innovation to realise a more equitable, transparent, and Islamic-compliant financial system. Through contracts such as mudharabah, musyarakah, and murabahah, transactions are conducted based on agreement, clarity, and profit-sharing, rather than interest. This is in line with Allah's warning in QS. Al-Baqarah: 278 "O you who believe! Fear Allah and give up what remains of usury, if you are believers." which commands believers to abandon usury. By developing Sharia-compliant fintech, Muslim communities are provided with a way to access modern digital financial services without violating Sharia law.

Sharia fintech also complies with Allah's strict prohibition against the practice of compound interest, as mentioned in QS. Ali 'Imran: 130 "O you who believe! Do not consume compound interest, and fear Allah so that you may prosper." In the usury system, borrowers are burdened with ever-increasing obligations, while lenders reap profits without fair risk. Sharia fintech

eliminates this practice by replacing it with a model of cooperation that shares risks and profits, thereby creating a balanced relationship between investors and recipients of funds. Thus, sharia fintech is not merely a financial solution, but also a form of obedience to Allah's command.

The implementation of Islamic fintech can also be seen as a concrete step to avoid the severe warning from Allah in QS. Al-Baqarah: 279 "And if you do not do so (abandon the remaining usury), then know that there will be war (from Allah and His Messenger). But if you repent, then you shall have your principal; you shall not (have the right to) commit injustice, nor shall you be wronged." This verse warns of war from Allah and His Messenger for those who continue to consume usury. Through platforms such as Ammana, Alami Sharia, and Dana Syariah, Muslims are provided with safe and Sharia-compliant alternatives for transactions. Not only are they supervised by the OJK, but Sharia fintech also has a Sharia Supervisory Board (DPS) that ensures every transaction is free from usury, gharar (uncertainty), and maysir (speculation).

The law requires that operations be conducted using several types of contracts in accordance with sharia principles. These contracts include *mudharabah*, which is a form of cooperation between investors and business managers with a profit-sharing system; *musyarakah*, which is a capital cooperation between two or more parties who share profits and risks proportionally; and *murabahah*, which is a mechanism of buying and selling with a profit margin that is agreed upon in advance. These three contracts demonstrate that profits in Sharia-compliant fintech are derived from real business activities or sales margins, not from loan interest that contains elements of usury.

Several Sharia fintech platforms such as Ammana, Alami Sharia, and Dana Syariah are concrete examples of the successful application of Islamic financial principles in digital systems. All three operate under the supervision of the OJK and DPS, and emphasise the values of transparency, fairness, and blessing in their financing practices.

Rahman's (2022) research in the Journal of Islamic Financial Studies emphasises that the application of these sharia contracts is not only a solution to prevent people from engaging in usury, but also capable of creating a balance between economic interests and moral values. This means that sharia fintech does not merely offer convenient technology-based financial services, but also upholds the principles of justice, honesty, and blessing in accordance with Islamic teachings (Rahma, 2022).

Reflections and Implementation Challenges

The phenomenon of online lending in Indonesia raises profound reflections on how such practices operate in the context of Islamic law. On the one hand, online lending services offer easy access for people in need, especially during times of economic instability, so online loans are seen as a quick solution to meet urgent needs. However, reflections on numerous studies indicate that the reality on the ground is still far from the ideal principles of Sharia, such as justice, clarity of contracts, and protection of the vulnerable (Wahyu Kurniadi, 2024). Kurniadi emphasizes that although several sharia fintech platforms have used contracts that formally meet sharia requirements, major obstacles still arise from low levels of sharia financial literacy among the public and limited human and technological resources in platform management. Therefore, the presence of regulations alone is not sufficient without greater public understanding and the ability of operators to truly implement sharia principles in every line of operation.

Another finding from the journal Challenges of Islamic Supervisory in The Islamic Financial Technology Industry by Rifqi Muhammad and Rima Lanaula reinforces that in addition to internal challenges in the form of acquisition and strengthening of sharia compliance, there are also external challenges such as regulations that are not yet specific to sharia fintech, as well as governance and sharia supervision that are often limited in capacity and operational scope. Sharia

supervisors often do not have full authority or effective mechanisms to monitor in detail the contracts, cost transparency and fair collection procedures (Muhammad, R., & Lanaula, R., 2021).

From these two sources, we know that the main challenges in implementing online lending according to Islamic law include: (1) contract compliance, particularly avoiding elements of usury, gharar, and unfair practices in collection; (2) regulation and supervision, namely legality, licensing, and sharia supervision mechanisms, as well as the negative consequences if the platform operates without supervision or clear regulations; (3) public literacy, because without a good understanding, the public can be trapped in products that are formally "called Sharia" but in practice violate the principles; (4) the technical capacity and human resources of Sharia fintech operators to be able to design, operate, and supervise products consistently in accordance with Sharia standards (Rifqi Muhammad dan Rima Lanaula, 2023)..

CONCLUSION

The phenomenon of online lending reflects the dual nature of modern financial technology development. On the one hand, it increases economic accessibility; on the other hand, it threatens social justice values. From an Islamic legal perspective, lending practices involving riba (interest), gharar (uncertainty), and kezhaliman (injustice) are not only normatively prohibited but also contrary to the objectives of Islamic law (maqāṣid al-syarī'ah), which emphasises justice, public interest, and the protection of human rights.

An analysis of online lending practices in Indonesia shows that most platforms do not meet Sharia-compliant transaction standards. Issues such as excessively high interest rates, ambiguous contract clauses, and privacy violations indicate that honesty and transparency are not yet sufficiently guaranteed. On the other hand, the emergence of Islamic fintech has opened up new opportunities for sharia-compliant financial innovation. By applying the principles of profit sharing, transparent operations, and sharia oversight mechanisms, this system is expected to become an alternative funding solution based on ethics and fairness.

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