

DOI: <https://doi.org/10.63332/joph.v5i2.450>

Optimizing E-Wallet Transactions: A Shariah-Compliant Approach for Malaysia

Rafisah Mat Radzi¹, Wan Nurliza W.Ramli², Mahdiyah Jaffer³, Tuan Badrul Hisyam Tuan Soh⁴

Abstract

This study aims to propose a framework and parameters for Islamic e-wallet transactions that can be implemented in Malaysia. The proposal was developed through a documentary review, comparing Shariah rulings on e-money issued in Malaysia and Indonesia. The framework was then validated by Shariah advisors from the banking industry through semi-structured interviews. The study emphasizes that key elements such as Shariah contracts, the management of users' funds, rewards, fee structures, provisions for e-wallet usage, and the Shariah committee are critical to ensuring compliance with Shariah principles in e-wallet transactions. By creating a systematic framework for Islamic e-wallet transactions, this study seeks to fill the gap for issuers and promote by greater engagement of service providers within the digital economy. Furthermore, a precise distinction exists between e-money, which represents stored electronic value used for transactions, and e-wallets, which are digital applications that manage and facilitate transactions involving e-money, debit cards, and credit cards. Consequently, the study's findings and recommendations are useful for banks and non-bank service providers, including regulators, in structuring Shariah-compliant e-wallet transactions.

Keywords: E-wallet, E-money, Shariah, Fintech, Islamic Finance

Introduction

The past decade has seen rapid technological advancements revolutionizing the payment system, transitioning from traditional cash to digital alternatives such as electronic money (e-money) and e-wallets. In Malaysia, this transformation is particularly significant, with e-wallets playing a major role in shaping the financial landscape. Post-COVID-19, e-wallet transactions accounted for 25% of all transactions, reflecting sustained consumer preference for digital payments (The Malaysian Reserve 2021).

In response to the evolving financial ecosystem, the Malaysian government has undertaken progressive *ijtihad* in Islamic business law. The *Shariah* Advisory Council (SAC) of Bank Negara Malaysia issued guidelines for e-money as a *Shariah*-compliant instrument in 2020, based on Articles 28(1) and (2) of the Deed of Service of Islamic Finance 2013 (Bank Negara

¹ School of Distance Education, Universiti Sains Malaysia, 11800 Minden, Penang Malaysia, Email: rafisah@usm.my, <http://orcid.org/0000-0002-7471-1513>

² Bank Kerjasama Rakyat Malaysia, Level 23, Tower 1, Menara Kembar Bank Rakyat, No 33, Jalan Rakyat, KL Sentral, 50470 Kuala Lumpur, Email: wan.nurliza@bankrakyat.com.my

³ The Department of Islamic Legal Studies, Al-Mahdi Institute, 60 Woeley Park Road, Birmingham B29 6RB, Email: mahdiya.abdulgussain@almahdi.edu

⁴ Bank Kerjasama Rakyat Malaysia, Tower 1, Menara Kembar Bank Rakyat, No 33, Jalan Rakyat, KL Sentral, 50470 Kuala Lumpur, Email: sirbadsyam@gmail.com



Malaysia 2020a). Similarly, in Indonesia, the National *Sharia* Board-Indonesian Council of Ulama (DSN-MUI) issued Fatwa Number 116/DSN-MUI/IX/2017 on *Shariah* electronic money. However, at the international level, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has yet to issue fatwas or *Shariah* (Islamic law) standards for electronic money (Hidayati et al. 2023).

Bank Negara Malaysia, under the Financial Services Act 2013 (FSA), defines e-money as any payment instrument that stores funds electronically in exchange for money paid to an issuer. E-money is used as a means of making payments to any person other than the e-money issuers (EMI) in various forms, such as card-based (e.g., prepaid cards) and network-based, which can be accessed via the internet, mobile phones, or other devices (Bank Negara Malaysia 2008). While there is no official definition of e-wallets, they are generally understood as applications enabling digital transactions through e-money, debit cards, or credit cards (Noor & Yusoff 2022). The definition provides a precise distinction between e-money and e-wallets. E-money is a form of electronic stored value that is used for payments as an alternative to physical cash. While an e-wallet functions as a digital wallet in the form of an application on a smartphone that stores various payment instruments, including e-money, credit cards, and debit cards, and records all types of transactions performed. However, to perform a transaction through an e-wallet without using credit or debit cards, users still require e-money to ensure the transaction is successfully completed (W.Ramli et al. 2021).

Although Malaysia has regulated e-money, specific guidelines for *Shariah*-compliant e-wallets remain absent (W.Ramli et al. 2021). Meanwhile, many contemporary scholars raise concerns regarding the current practices of e-wallets, particularly in terms of the management of deposits within e-wallets (Nor et al. 2021; W.Ramli et al. 2021), the forms of rewards within service provider marketing strategies (Latif & Ahmad 2022) and the debate over utilizing e-wallets to transact with *Shariah* non-compliant merchants (Aseh 2020; W.Ramli et al. 2021). Such arguments arise particularly concerning e-wallets issued by non-bank entities, as bank-issued e-wallets are governed by Bank Negara Malaysia (Shamsuddin, Sitoris & Yunus 2022).

In Malaysia, while there are numerous e-wallet service providers, only a few, such as Hong Leong e-wallet-i, offer *Shariah*-compliant instruments. However, as far as this study is concerned, specific data on the number of *Shariah*-compliant e-wallet providers is not widely recorded, and the majority of available e-wallets do not explicitly adhere to Islamic financial principles. The 'MBSB Bank e-wallet,' that launched the *Shariah*-compliant mobile application concept in 2019 (MBSB 2020), has unfortunately announced the discontinuation of its e-wallet platform, effective May 31, 2024 (Business Times 2024). Meanwhile, there is no official verification regarding whether the entire Touch 'n Go+ e-wallet application is *Shariah*-compliant, as their announcement only focuses on one product in collaboration with Principal Asset Management. A preliminary analysis from a *Shariah* perspective of FavePay, MAE Maybank, and Touch 'n Go in Malaysia indicates that, to some degree, their applications comply with *Shariah*. Nevertheless, no public announcement has been made (Zulkefli, Rusmadi & Aziz 2019). With the rising demand for fintech solutions, the scarcity of fully *Shariah*-compliant e-wallets presents a critical gap. This study aims to address this issue by proposing a framework and parameters for Islamic e-wallet transactions in Malaysia, potentially serving as a benchmark for other countries.

The paper is structured as follows: the next section provides a literature review, followed by the methodology employed in this study. Subsequent sections compare the *Shariah* rulings on electronic money in Malaysia and Indonesia, followed by a proposed framework and parameters for Islamic e-wallets. The paper concludes with a summary of the main themes and key findings.

From Fiat to Digital: Islamic Perspectives on E-Money and E-Wallets - A Literature Review

The introduction of paper money sparked debate among *Shariah* scholars. Some viewed it as *Shariah*-compliant due to its official recognition, while others saw it as impermissible since it represents a debt to the issuing bank. Another perspective considered it a weak substitute for real value, while others accepted it as a trade item but not on par with the six tangible items mentioned in the Hadith (Krichene & Ghassan 2019)

As paper money gained acceptance, its initial backing by gold reserves eroded. The UK abandoned the gold standard in 1931, followed by the USA in the 1970s after the collapse of Bretton Woods (Olorogun & Aziz 2021). This marked the full transition to fiat currency, challenging the role of gold and silver in monetary systems (Sifat & Mohamad 2018). Paper money evolved from a debt instrument into a primary medium of exchange, with Muslim scholars ultimately accepting it through various *Shariah* rulings (Yaacob 2014). The First International Islamic Economic Conference (1976) and the *Fiqh* Academy of Makkah (1987, 1988) acknowledged fiat money as an accepted medium of exchange, though the debate on gold and silver as currency persists (Olorogun & Aziz 2021).

With technological advancements, financial transactions have shifted from paper money to electronic money (e-money), defined as digitally stored funds used for payments (Bank Negara Malaysia 2022a). E-money is an alternative for online transactions, offering security and convenience (Al-Laham, Al-Tarawneh & Abdallat 2009). It functions similarly to credit cards as a substitute for physical currency (Seetharaman & Raj 2009). The rise of e-wallets has further transformed the financial ecosystem. While e-money replaces physical cash, e-wallets replace traditional wallets (Kamarulbaid 2019). E-wallets vary based on providers, target customers, and supported assets, evolving with technological advancement (Naim et al. 2023). Typically, users 'top up' e-wallets via online banking or prepaid cards, converting funds into e-money for online and in-person transactions (Kamarulbaid 2019). This eliminates the need to carry physical cash, streamlining digital payments.

Despite these advancements, Islamic principles define money beyond its conventional role as a medium of exchange, store of value, and unit of account. In Islam, money should circulate rather than be hoarded or treated as a commodity for speculative trading. The digital transformation of money, especially in e-wallets, has sparked concerns about its *Shariah* compliance. Key issues include deposit management, marketing rewards, and transactions with non-compliant merchants (Aseh 2020; Mohamad 2019; Nor et al. 2021; Omar et al. 2012; Shukori & Borhan 2018; W.Ramli et al. 2021).

Ensuring that digital financial structures align with Islamic economic principles and *Shariah* objectives remains a crucial discussion. The increasing adoption of e-wallets underscores the need for clear *Shariah* compliance standards. Examining their permissibility in Islamic finance

is essential to ensure they align with *maqasid* (objectives) *Shariah* and maintain ethical financial integrity.

Methodology

This study adopted a qualitative research design utilizing a two-stage triangulation approach, integrating documentary analysis and semi-structured interviews to enhance methodological rigor through cross-validation. The first stage involved an in-depth review of publicly available *Shariah* rulings and guidelines on electronic money in Malaysia and Indonesia. The Malaysian analysis examined the *Shariah* Advisory Council (SAC) of Bank Negara Malaysia's ruling on electronic money (Bank Negara Malaysia 2020b) and the Electronic Money (E-Money) Guidelines (Bank Negara Malaysia 2022a). For Indonesia, key references included:

DSN-MUI Nomor: 116/DSN-MUI/IX/2017 (*Shariah* Electronic Money)

DSN-MUI Nomor: 112/DSN-MUI/IX/2017 (*Ijarah* Contract)

DSN-MUI Nomor: 62/DSN-MUI/XII/2007 (*Ju'alah* Contract)

DSN-MUI Nomor: 113/DSN-MUI/IX/2017 (*Wakalah bi al-Ujrah* Contract)

A content analysis was conducted to extract core *Shariah* principles, contractual conditions, and compliance requirements for e-money. The study systematically cross-checked Malaysian *Shariah* Advisory Council (SAC) rulings against DSN-MUI fatwas, identifying common themes and discrepancies. This comparative approach helped establish key *Shariah*-compliant principles foundational to the proposed Islamic e-wallet framework.

To validate findings, in the second stage, semi-structured interviews were conducted with two *Shariah* advisors from Malaysian commercial banks. Their expertise in overseeing *Shariah* compliance for e-wallet transactions provided critical insights for verifying the framework's validity. Their feedback ensured that the proposed Islamic e-wallet structure adhered to *Shariah* requirements while maintaining practical feasibility.

A Comparative Analysis of E-Money Regulations in Malaysia and Indonesia

A comparative insight into *Shariah* e-money rulings in Malaysia and Indonesia serves as a crucial reference for developing Islamic e-wallet frameworks. The discussion is structured around the e-money framework, as summarized in Table 1. In Malaysia, the regulation of *Shariah*-compliant e-money falls under the *Shariah* Advisory Council (SAC) of Bank Negara Malaysia. The SAC has ruled e-money permissible, provided it is structured under an appropriate *Shariah* contract to uphold the rights and obligations of all parties. This ruling applies to issuers approved under the Islamic Financial Services Act 2013 (IFSA) and the Financial Services Act 2013 (FSA), specifically under section 15(1)(e) of the FSA, which allows the issuance of *Shariah*-compliant e-money (Bank Negara Malaysia 2020a).

In Indonesia, Bank Indonesia Regulation Number: 11/12/PBI/2009 governs e-money as a legal payment method. E-money is deemed permissible under *Shariah* law, provided it adheres to the National *Sharia* Council of the Indonesian Ulema Council (DSN-MUI) Fatwa Number 116/DSN-MUI/IX/2017, which outlines specific *Shariah* provisions for electronic money transactions (Otoritas Jasa Keuangan 2019).

Both Malaysia and Indonesia recognize e-money as *Shariah*-compliant, but their regulatory approaches differ. Malaysia mandates specific *Shariah* contracts, while Indonesia focuses on general compliance within Islamic finance principles. These insights are essential in formulating Islamic e-wallet parameters for a standardized *Shariah*-compliant digital payment ecosystem.

| Countries | Malaysia | Indonesia |
|---|---|--|
| Criteria | | |
| Guidelines | Ruling on E-Money as a <i>Shariah</i> Compliant Payment Instrument SAC's 201st Meeting and 26th Special Meeting on 29 and 30 January 2020 | Fatwa Dewan <i>Syariah</i> Nasional Majelis Ulama Indonesia No:116/DSN-MUI/IX/2017 <i>Tentang Uang Elektronik Syariah</i> |
| Ruling for the <i>Shariah</i> e-money structure | Five parts of Guidelines; Part I: SAC Ruling, Its Effective Date and Applicability Part II Background Part III Key Discussion Part IV Basis of Ruling Part V Implication of the SAC Ruling | Eight <i>fatwa</i> consists of; 1. General Provisions 2. Legal Provisions 3. Provisions related to Contracts and Legal Personnel 4. Fee Provisions for Facility Services 5. Provisions and Limitations in using Electronic Money 6. Special Provisions 7. Dispute Resolution 8. Closing Provisions |
| Underlying <i>Shariah</i> contracts between the contracting parties | Part III: Key Discussion, 1(a) and 1(b) ▪ <i>Wakalah</i> (agency contract) – <i>aqad</i> between the issuer and users ▪ <i>Ijarah al-khadamat</i> (services with fee) or <i>ju'alah</i> (incentives) – <i>aqad</i> between the issuer and merchant | 3. Provision related to Contracts and Legal Personnel; ▪ <i>Wadi'ah</i> or <i>qardh</i> – <i>aqad</i> (contract) between the issuer and the e-money holder (users) ▪ <i>Ijarah, ju'alah</i> and <i>wakalah bi al-ujrah</i> – <i>aqad</i> between issuers and parties that involve in organizing electronic money ▪ <i>Ijarah, ju'alah</i> and <i>wakalah bi al-ujrah</i> – <i>aqad</i> between issuers and agents of digital financial services |
| Management of deposited money/top-up | Part III Key Discussion, Issue 2; Placement in the <i>Shariah</i> compliant trust account/dedicated deposit account. | 6. Special provision; Placement in the <i>Shariah</i> -compliant bank. |
| Promotion reward in-kind | Part III Key Discussion, Issue 3; The approved issuer may offer rewards or benefits, as these are not considered or linked to the concept of <i>qardh jarra naf'an</i> (loan that benefits the lender) in relation to the contracted <i>qardh</i> account opened by the holder. | DSN-MUI Fatwa Nomor: 62/DSN-MUI/XII/2007 <i>Akad Ju'alah</i> – rewards can be offered by merchants DSN MUI fatwa No:19 /DSN-MUI/IV/2001 <i>Al-qardh</i> - rewards made by issuers on voluntarily basis and not written in the contracts. |
| Fee operation | Part III: Key Discussion 1(b) contract of services with fee (<i>ijarah al-khadamat</i>) or the contract of incentives (<i>ju'alah</i>) | 4. Fee Provisions for Facility Services At actual cost and communicate with the users |
| Provisions on the use of e-money | Part I: SAC Ruling, Its Effective Date and Applicability User's responsibility to ensure that the e-money is used for <i>Shariah</i> -compliant transactions. Part III: Key Discussion, Issue 4 ▪ No transaction with <i>Shariah</i> non-compliant merchants, subject to the <i>Shariah</i> advisor approval. ▪ No product bundling or cross-selling involving <i>Shariah</i> non-compliant products. | 5. Provisions and Limitations in using Electronic Money ▪ Transactions that involve <i>ribawi, gharar</i> (uncertainty), <i>maysir</i> (gambling), <i>tadlis</i> (conceal defect), <i>risywah</i> (bribery), and <i>israf</i> (excessive spending) ▪ Transactions involving prohibited or sinful objects. |

Table 1 Comparison of *Shariah* E-money ruling as practice in malaysia and indonesia

Sources: adopted from The *Shariah* Advisory Council of Bank Negara Malaysia (SAC) Ruling on E-Money as a *Shariah* compliant payment instrument (Bank Negara Malaysia 2020a) DSN-MUI Nomor: 116/DSN-MUI/IX/2017 *Tentang Uang Elektronik Syariah* (DSN-MUI 2017).

***Shariah* Contract for the E-Money Framework**

In Malaysia, the *Shariah* Advisory Council (SAC) of Bank Negara Malaysia recognizes *wakalah* (agency contract) as the foundation for structuring *Shariah*-compliant e-money. Under this contract, the approved e-money issuer acts as an agent (*wakil bi ad-daf'i*) on behalf of users to facilitate payments to merchants. The issuer provides agency services by settling transactions for users and is responsible for the prudent management of funds received. Additionally, the issuer is permitted to invest these funds and benefit from the returns, provided this is conducted in accordance with *Shariah* guidelines. This framework suggests that the funds users deposit with

the issuer may be classified as *qardh* (a loan) from the user to the issuer (Bank Negara Malaysia 2020a).

When dealing with merchants, the SAC has ruled that *ijarah al-khadamat* (service contract with fees) or *ju'alah* (reward-based contract) may be applied as *takyif fiqhi* (Islamic legal adaptation). Since issuers function solely as agents in transactions, users bear the responsibility of ensuring their e-money is used strictly for *Shariah*-compliant transactions. This obligation extends from e-wallet registration through account activity, reinforcing adherence to Islamic financial principles (Bank Negara Malaysia 2020a)

In Indonesia, the National *Sharia* Council of the Indonesian Ulema Council (DSN-MUI) outlines five primary *Shariah* contracts applicable to e-money transactions, namely *wadi'ah* (safe deposit), *qardh* (loan), *ijarah* (leasing), *ju'alah* (reward-based contract), and *wakalah bi al-ujrah* (agency with a fee). According to DSN-MUI Fatwa Number 116/DSN-MUI/IX/2017, e-money transactions must adhere to these contracts, depending on the purpose of the transaction and the parties involved.

For transactions between issuers and users, *wadi'ah* and *qardh* contracts are permissible, with each contract carrying distinct conditions. Under *wadi'ah*, issuers may only invest deposited funds with the explicit consent of users. In contrast, under *qardh*, deposited money is considered a loan that the issuer must repay on demand. If funds deposited under *wadi'ah* are later used by the issuer with user consent, the contract transitions from *wadi'ah* to *qardh*, shifting the issuer's responsibility to that of a debtor.

For transactions between issuers and electronic money service providers (e.g., merchants, clearing providers, settlement providers), DSN-MUI allows *ijarah*, *ju'alah*, and *wakalah bi al-ujrah* contracts to be employed. The contract used depends on the underlying *Shariah* rulings of related agreements. DSN-MUI references specific fatwas, including:

- DSN-MUI Nomor: 112/DSN-MUI/IX/2017 (*Ijarah*)
- DSN-MUI Nomor: 62/DSN-MUI/XII/2007 (*Ju'alah*)
- DSN-MUI Nomor: 113/DSN-MUI/IX/2017 (*Wakalah bi al-ujrah*)

Additionally, in transactions between issuers and digital financial service agents, *ijarah*, *ju'alah*, and *wakalah bi al-ujrah* contracts are applicable. These agents act as third parties, providing financial services on behalf of issuers through digital platforms.

The regulatory approaches in Malaysia and Indonesia share fundamental similarities, though contractual applications differ. Malaysia primarily employs *wakalah* and *ijarah*, while Indonesia integrates *wadi'ah*, *qardh*, and *wakalah bi al-ujrah*. These distinctions highlight the regional adaptability of *Shariah*-compliant e-money frameworks, providing essential insights for the development of Islamic e-wallet systems.

Management of deposited money

The *Shariah* Advisory Council (SAC) of Bank Negara Malaysia has stipulated that funds received from users must be placed in a *Shariah*-compliant trust account or a designated deposit

account, as required under Section 137 of the Islamic Financial Services Act 2013 (IFSA). Additionally, issuers must comply with the Guideline on Electronic Money issued by Bank Negara Malaysia on 31 July 2008, which regulates the management and permissible use of these funds. This guideline allows the funds to be utilized for investment purposes, with any returns generated belonging to the issuer, provided that such utilization aligns with the *Shariah* conditions outlined in the guideline. In this context, the deposited funds may be viewed as *qardh*, or a loan, from the user to the issuer (Bank Negara Malaysia 2008).

In Indonesia, fund management must also comply with *Shariah* principles as stipulated in DSN-MUI Fatwa Number 116/DSN-MUI/IX/2017. The ruling mandates that issuers are prohibited from using deposited funds (float funds) in a manner that contradicts *Shariah* law. Both *wadi'ah* and *qardh* contracts require that funds be held in a *Shariah*-compliant bank. Furthermore, in cases where an electronic money card is lost, the amount held by the issuer must remain intact and not be forfeited.

Promotion Reward In-Kind

The *Shariah* Advisory Council (SAC) of Bank Negara Malaysia permits approved e-money issuers to offer rewards to users for various activities, including service subscriptions, balance top-ups, and transactions with merchants. The SAC holds the view that such reward schemes do not violate the principle of *qardh jarra naf'an* (a loan that benefits the lender), as the funds received from users are not classified as *qardh*. This perspective is based on the concept of incidental *qardh*, wherein a loan is not the primary objective of the contract but rather arises as a secondary outcome of a broader financial service.

In the context of *Shariah*-compliant e-money transactions, the primary service provided is payment facilitation, while the *qardh* component occurs only as a byproduct when users deposit money into their e-wallets. Since the primary purpose of the transaction is not lending but rather enabling payments, any benefits derived by the e-money issuer do not constitute a *Shariah* violation. The rewards provided by issuers are designed to promote the use of e-wallet services and are not directly linked to the amount deposited by users. Consequently, as long as these rewards are based on usage behavior rather than the deposited sum, the issue of *qardh jarra naf'an* does not arise. However, if the reward structure encourages users to increase their deposits in a way that resembles interest, it would contravene *Shariah* principles (Bank Negara Malaysia, 2020).

This view is further supported by several key considerations. First, the *qardh* contract remains supplementary, distinguishing it from traditional deposit-based banking contracts. Second, there is no direct interdependence between the amount deposited by users and the rewards issued by e-money providers. Third, rewards are intended as a temporary marketing tool to encourage participation, rather than to provide a return on deposited funds. Fourth, existing *Shariah* guidelines prohibit e-money issuers from issuing monetary value exceeding the received amount, ensuring compliance with financial regulations. Lastly, the customary practice (*urf*) in e-money usage differentiates it from traditional banking operations, reinforcing the *qardh* contract as incidental rather than central to the transaction (Bank Negara Malaysia, 2020).

In Indonesia, the *Shariah* governance of promotional rewards in e-money transactions follows a different contractual framework. Issuers are permitted to use *ijarah*, *ju'alah*, and *wakalah bi al-ujrah* contracts with various stakeholders, including principals, acquirers, merchants, clearing providers, and settlement agents. These agreements must align with the respective *Shariah* laws governing each contract type. According to DSN-MUI Fatwa No: 62/DSN-MUI/XII/2007, merchants may provide rewards using a *ju'alah* contract, where compensation is offered based on achieved outcomes.

Additionally, issuers in Indonesia may offer promotional rewards through *wadi'ah* contracts, classifying these incentives as voluntary gifts (*athaya*) rather than contractual obligations, as per DSN-MUI Fatwa No: 02/DSN-MUI/IV/2000. However, in the case of a *qardh* contract between issuers and users, rewards are only permissible if they are voluntarily granted and not stipulated in the agreement. This ruling is reinforced by DSN-MUI Fatwa No: 19/DSN-MUI/IV/2001, which explicitly prohibits contractual rewards tied to *qardh* transactions.

While both Malaysia and Indonesia permit promotional rewards in *Shariah*-compliant e-money transactions, their contractual structures and regulatory perspectives differ. Malaysia focuses on maintaining the incidental nature of *qardh* within e-money transactions, ensuring that rewards are aligned with usage incentives rather than deposit amounts. Indonesia, on the other hand, explicitly defines promotional mechanisms through various *Shariah* contracts, ensuring that incentives remain voluntary and separate from any contractual obligations under *qardh*. These differences highlight the diverse applications of *Shariah* principles in digital financial services, providing valuable insights for structuring Islamic e-wallet frameworks in alignment with *Shariah* law.

Fee Operation

The *Shariah* Advisory Council (SAC) of Bank Negara Malaysia has ruled that *ijarah al-khadamat* (service-based fee) and *ju'alah* (incentive-based fee) contracts serve as appropriate Islamic legal adaptations for imposing fees in e-money transactions. These contracts justify administrative charges levied on merchants, demonstrating that such fees are legally permissible, provided they align with the contractual terms and obligations of the involved parties (Bank Negara Malaysia, 2020).

Similarly, DSN-MUI Fatwa No: 116/DSN-MUI/IX/2017 affirms that administrative fees in *Shariah*-compliant e-money transactions are acceptable under two key conditions. First, the fees must accurately reflect actual operational costs incurred in facilitating e-money transactions. Second, these charges must be clearly disclosed to users in compliance with *Shariah* principles and prevailing financial regulations.

Provisions on the use of E-Money

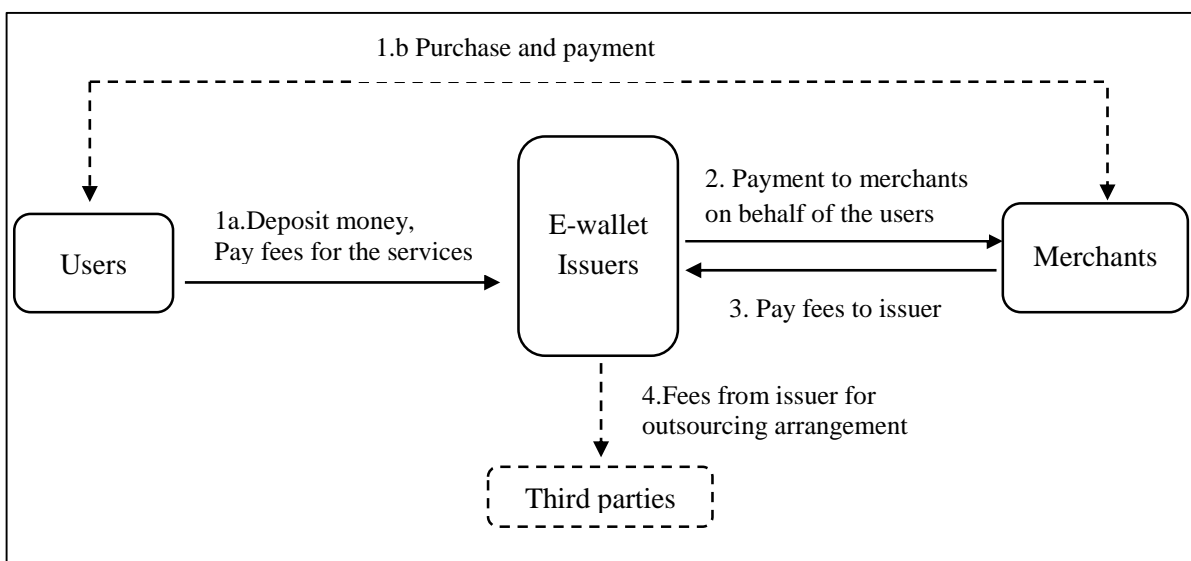
In Malaysia, the SAC upholds that under *wakalah* (agency contract), issuers act solely as intermediaries, facilitating transactions on behalf of users. Consequently, it is the user's responsibility to ensure e-money is utilized for *Shariah*-compliant transactions. However, issuers must also prevent transactions with non-compliant merchants, except in specific cases approved by a qualified *Shariah* advisor. Additionally, issuers are strictly prohibited from bundling or

In Indonesia, the Fifth *Shariah* ruling mandates that e-money transactions must adhere to Islamic financial principles by avoiding *riba* (interest), *gharar* (uncertainty), *maysir* (gambling), *tadlis* (deception), *risywah* (bribery), and *israf* (extravagance). Furthermore, transactions involving prohibited goods or sinful activities are strictly forbidden.

Findings: a General Framework the E-Wallet

A summary of the *Shariah*-compliant e-money transaction framework involving users, merchants, issuers, and third parties is illustrated in Figure 1. The Electronic Money (E-Money) Guideline by Bank Negara Malaysia defines these key parties. Users are individuals issued e-money or those using it for transactions. Merchants are businesses or individuals accepting e-money for payments. E-money issuers are entities approved under the Financial Services Act (FSA) 2013 or Islamic Financial Services Act (IFSA) 2013 to issue e-money, bearing full responsibility for payments and liabilities. In Malaysia, issuers may include banks and non-bank financial institutions. Banks handle both e-wallets and e-money, while non-bank issuers manage only e-wallets. Service providers, or third parties, support non-bank e-money issuers under outsourcing agreements. These entities perform operational functions on behalf of issuers and charge service fees (Bank Negara Malaysia 2022b).

Figure 1 Framework of Islamic e-wallet base on *Shariah* e-money
Source: Author's own creation, adapted from Malaysian and Indonesian Rulings on E-Money



The e-money transaction process begins when users install an e-commerce platform or mobile application. To enable payments, users can deposit funds via e-money, debit cards, or credit cards. For e-money transactions, funds are deposited online and converted into stored electronic value for future payments. Since deposited funds are intended for payment facilitation, issuers are responsible for settling transactions with merchants. In non-bank e-money frameworks, third-

party service providers may manage certain operational aspects, particularly under outsourcing arrangements. These third parties ensure seamless transaction execution while charging issuers service fees.

Figure 1 presents the *Shariah*-compliant e-wallet structure, integrating Malaysia and Indonesia's regulatory perspectives. This model ensures adherence to Islamic financial principles, with proper governance over fund management, transactions, and third-party participation.

Parameters for the Islamic E-Wallet Framework

Drawing from the Islamic e-wallet framework, six essential parameters have been identified, as illustrated in Figure 2. These parameters serve as fundamental guidelines for ensuring the *Shariah* compliance of e-wallets.

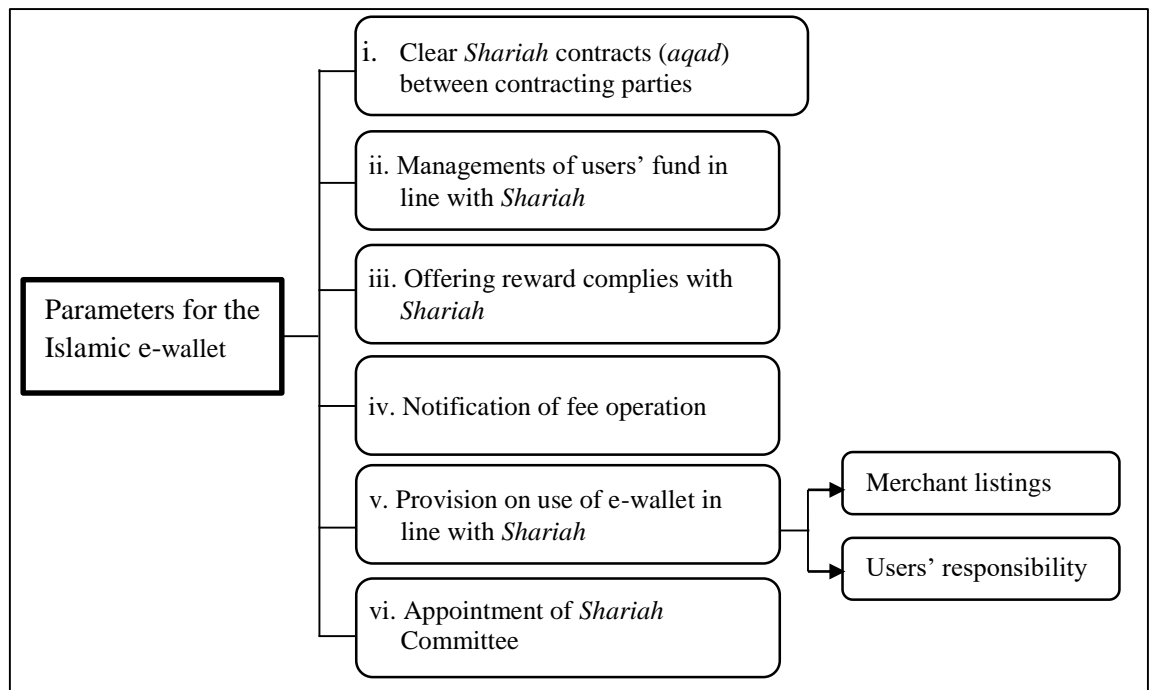


Figure 2 Guideline parameters for Islamic e-wallet

Source: base own survey

Clear *Shariah* Contracts (*aqad*) between Contracting Parties

The *Shariah* contract (*aqad*) between all parties involved in an Islamic e-wallet must be explicitly defined to ensure proper governance and operational structure. The terms and conditions, including the applicable contract, fees, and charges, must be mutually agreed upon before the transaction is executed.

In the relationship between users and issuers, contracts such as *wadi'ah*, *qardh*, or *wakalah* may be used. Each contract varies in terms of fund utilization and investment permissions. In Islamic banking, *wadi'ah* contracts can be classified as *wadi'ah yad amanah* (safe custody based on trust) and *wadi'ah yad dhamanah* (guaranteed safe custody). In the former, the issuer holds the deposited funds as an amanah (trust) and cannot use or invest them. The latter, commonly applied to e-wallet transactions, permits the issuer to utilize the deposited funds. However, if the issuer uses the funds under a *wadi'ah* contract, the arrangement is automatically converted into a *qardh* contract, requiring the issuer to return the principal amount upon user request. Under *wakalah* contracts, the issuer acts as an agent to facilitate payments to merchants on behalf of the user. Since issuers manage the funds and benefit from investments, the funds are often considered a *qardh* from users to issuers.

For transactions between issuers, merchants, and third parties, contracts such as *ijarah*, *ju'alah*, *wakalah bi al-ujrah*, and *ijarah al-khadamat* are applicable. Although outsourcing arrangements may be involved, users are indirectly linked to third-party financial activities since their capital funds originate from user deposits. Therefore, it is critical that users understand the *Shariah* compliance status of third-party engagements to avoid any prohibited transactions.

Management of Users' Fund in Line with *Shariah*

In Malaysia, the safeguarding of user funds differs for bank and non-bank e-money issuers. For bank issuers, funds collected in exchange for e-money issuance must be kept separately from the institution's working capital or any business-related funds. For non-bank issuers, fund deposits and management are regulated under Bank Negara Malaysia's E-Money Guidelines, which state that (Bank Negara Malaysia 2022b, pp.19-29):

- Trust accounts must comply with the Trustee Act 1949.
- Funds must only be used for refunds to users and payments to merchants.
- Investments must be limited to high-quality liquid ringgit-denominated assets.

Regardless of the type of e-wallet issuer, all funds must be held in a trust account that adheres to *Shariah* principles. A bank issuer must maintain a *Shariah*-compliant trust account, while non-bank issuers must store funds with Islamic financial institutions. Acceptable investments include deposits in licensed institutions, *Shariah*-compliant debt securities, Cagamas debt securities, and other approved instruments.

Offering Rewards that Comply with *Shariah*

When implementing promotional rewards in e-wallet transactions, issuers must ensure compliance with two key factors: (1) whether the rewards are offered by merchants or issuers, and (2) whether the rewards align with *Shariah* principles. Rewards provided by merchants, whether monetary or non-monetary, do not violate *Shariah* principles as long as they do not involve *riba* (usury), *gharar* (uncertainty), or *maysir* (gambling). Incentives such as cashbacks, waivers, and discount vouchers are permissible as standard marketing strategies.

For *wakalah* and *wadi'ah* contracts between issuers and users, where deposited funds are considered *qardh*, certain restrictions apply. Issuers may provide rewards voluntarily, but they must not be included as a contractual obligation or linked to deposit amounts or transaction

frequency. In *wadi'ah* contracts, where issuers do not use deposited funds, prizes and promotions may be issued as voluntary gifts.

Notification of Fee Operation

Fees imposed in e-wallet transactions must be transparent and aligned with *Shariah* contracts. According to the Malaysia E-Money Guidelines 2008, issuers may charge fees to users and merchants, provided these fees are communicated clearly. Acknowledgment must be obtained through various channels, including terms and conditions, registration forms, websites, and promotional materials. For transactions involving third-party service providers, fees are governed by *ijarah*, *ju'alah*, *wakalah bi-l-ujrah*, or *ijarah al-khadamat* contracts. The e-wallet issuer compensates third parties for services rendered, ensuring compliance with *Shariah*-based financial agreements.

Provision on the Use of E-Wallet in Line with *Shariah*

Merchant Screening and Compliance

E-wallet issuers are responsible for scrutinizing merchants' business activities before approving them as registered merchants on the platform. Transactions involving non-compliant *Shariah* products and services should be restricted by e-wallet issuers. Listing *Shariah*-compliant items is crucial since the commission earned by e-wallet service providers is based on the concept of *ju'alah*, which involves a reward given after completing a specific task. One of the conditions of *ju'alah* is that the task performed must be permissible (*mubah*) according to *Shariah*. Therefore, tasks involving unlawful or prohibited activities are not permitted.

Users' Responsibility

Users are also responsible for using the e-wallet platform in accordance with *Shariah* compliance. Issuers must inform users through appropriate methods or terms and conditions regarding users' responsibility to ensure the e-wallet is used solely for *Shariah*-compliant transactions. This monitoring clause users must ensure their e-wallets are funded or linked with Islamic debit or credit cards and used only for *Shariah*-compliant transactions., without hindering transactions, should state: "This e-wallet can only be used for *Shariah*-compliant transactions."

This practice is considered sufficient, as e-wallet services are not based on financing but rather on funds in the e-wallet are provided by users, not by the issuer. The e-wallet issuer's duty is limited to repaying the *qardh* amount from the user directly to merchants without participating in the actual sales transaction.

Appointment of *Shariah* Committee

For Islamic e-wallet compliance, issuers must ensure that all financial activities and transactions adhere to *Shariah* principles. This requires ongoing monitoring through a *Shariah* Advisory Panel. For bank-based e-wallet issuers, oversight is provided by Bank Negara Malaysia. However, for non-bank issuers, a dedicated *Shariah* committee must be appointed to ensure

compliance, enhance consumer trust, and verify that financial operations align with Islamic financial regulations.

Conclusion

Fintech services, particularly e-wallets, have shown growing demand in Malaysia and have surpassed other alternative payment methods. However, the availability of *Shariah*-compliant e-wallets remains limited. The establishment of clear *Shariah* guidelines and parameters is essential to ensure compliance. Service providers and regulatory bodies must prioritize *Shariah*-compliant e-wallet implementation, as its acceptance depends on alignment with Islamic financial principles.

This study proposes a structured framework for Islamic e-wallet transactions, based on *Shariah* e-money rulings in Malaysia and Indonesia. The findings emphasize the need for clear execution of *Shariah* contracts between transacting parties to maintain proper governance and operational integrity. The management of user funds, promotional incentives, service fees, and merchant compliance must also adhere to Islamic financial principles. The appointment of a *Shariah* Advisory Panel is critical to overseeing e-wallet transactions and ensuring continuous compliance.

The study provides a foundation for policymakers to develop legal and *Shariah*-compliant frameworks for e-wallets, strengthening consumer trust and promoting digital payment adoption. A proactive *Shariah* governance approach is crucial to prevent compliance issues. Future research should explore the legal and regulatory aspects of Islamic e-wallets, ensuring they remain compliant as financial technologies evolve.

Acknowledgments

This research was funded by the Ministry of Higher Education (MOHE) under the Fundamental Research Grant Scheme, 'Developing Islamic e-wallet transactional framework: an analysis from the *Shariah* (Islamic law) conformity and service provider perspectives'(R503-KR-FRG001-0006712083-K134). I would like to acknowledge the support received during my tenure as a Visiting Fellow at the Faculty of Islamic Economics & UIN Sunan Ampel, Surabaya Indonesia, from January 2, 2024 to June 27, 2024 and Visiting Research Fellow at the Islamic Legal Studies Department at Al-Mahdi Institute, Birmingham, UK from July 1, 2024 until September 27, 2024. The resources and environment provided by both institutions were invaluable to this research.

References

Al-Laham, M, Al-Tarawneh, H & Abdallat, N 2009, 'Development of electronic money and its impact on the Central Bank role and monetary policy ', *Issues in Informing Science and Information Technology*, vol. 9, pp. 339-349.

Aseh, K 2020, 'Shariah compliant electronic money in malaysia: key concerns and its permissibility', *Archives of Business Review*, vol. 8, no. 12, pp. 1-5.

Bank Negara Malaysia 2008, *Guideline on electronic money (e-money)*, Bank Negara Malaysia,

Bank Negara Malaysia 2020a, *E-Money as a Shariah compliant payment instrument*, SAC's 201st Meeting and 26th Special Meeting on 29 and 30 January 2020,

Bank Negara Malaysia 2020b, *E-Money as a Shariah compliant payment instrument*, SAC's 201st Meeting and 26th Special Meeting on 29 and 30 January 2020, Bank Negara Malaysia, Kuala Lumpur.

Bank Negara Malaysia 2022a, *Electronic money (e-money)*, Bank Negara Malaysia, Kuala Lumpur.

Bank Negara Malaysia 2022b, *Electronic money (e-money)*, Bank Negara Malaysia,

Business Times 2024, *MBSB Bank to discontinue e-wallet platform from May 31, 2024*, New Straits Times Press (M) Bhd, Kuala Lumpur, viewed 12 May 2024, <<https://www.nst.com.my/business/corporate/2024/04/1035674/mbsb-bank-discontinue-e-wallet-platform-may-31-2024>>.

DSN-MUI 2017, *Fatwa Dewan Syariah Nasional - Majelis Ulama Indonesia: No: 116/DSN-MUI/IX/2017 Tentang uang elektronik Syariah*, Mahkamah Agung Republik Indonesia (The Supreme Court of the Republic of Indonesia), viewed 1 March 2024, <<https://putusan3.mahkamahagung.go.id/peraturan/detail/11e9da0c9217995ebfd6313930353133.html>>.

Hidayati, T, Hidayatullah, MS, Komarudin, P & Atika, A 2023, 'Digitalization of Islamic finance: epistemological study of the National Sharia Board-Indonesian Council of Ulama's Fatwa', *al-Ahkam*, vol. 33, no. 2, pp. 255-278.

Kamarulbaid, AM 2019, *Jaminan pulangan wang*, Utusan Malaysia, viewed 16 July 2024, <<https://www.utusan.com.my/nasional/2019/07/jaminan-pulangan-wang/>>.

Krichene, N & Ghassan, H 2019, 'The preeminence of gold and silver as shariah money', *Thunderbird International Business Review*, vol. 61, no. 5, pp. 821-835.

Latif, AAA & Ahmad, S 2022, 'Kontroversi Manfaat dalam Perisian Aplikasi E-Wallet', *BITARA International Journal of Civilizational Studies and Human Sciences*, vol. 5, no. 2, pp. 51-65.

MBSB 2020, *First Shariah compliant e-wallet in Malaysia*, MBSB Bank, viewed 4 April 2024, <<https://www.mbsbbank.com/consumer-banking/banking-services/e-wallet>>.

Mohamad, MH 2019, *Some sharia considerations concerning e-wallet*, Institut Kefahaman Islam Malaysia, Kuala Lumpur, viewed 28 January 2021, <<http://www.ikim.gov.my/new-wp/index.php/contact/>>.

Naim, AM, Mirza, AAI, Shukor, ARA, Nor, MZM, Muhamed, NA, Ahmad, A & Ali, SRS 2023, 'E-wallet models: an appraisal of sharia-related issues', *AHKAM*, vol. 23, no. 2, pp. 519 - 542.

Noor, KAM & Yusoff, AFJ 2022, 'Sharia Compliant Status of E-Money in Popular Malaysian E-Wallet Account', *Journal Of Contemporary Islamic Law*, vol. 7, no. 2, pp. 11-18.

Nor, MZM, Naim, AM, Muhamed, NA, Mirza, AAI, Ahmad, A, Shukor, ARA & Ali, SRS 2021, 'Legal issues in e-wallet practices', *UUM Journal of Legal Studies*, vol. 12, no. 2, pp. 229–252.

Olorogun, LA & Aziz, AA 2021, 'Critical evaluation of the contemporary scholars' fatwas on substitution of gold dinar for banknotes', *International Journal of Islamic Thought*, vol. 20, pp. 109-119.

Omar, MN, Kareem, MAA, Ismail, AG & Lahsasna, A 2012, *E-Money in Malaysia: Shariah and Economic Analysis*, paper presented at the Fifth Foundation Of Islamic Finance Conference (FIFC), Langkawi, 9-10 July, 2012.

Otoritas Jasa Keuangan 2019, *Uang Rupiah di bank aman dan sah sesuai dengan Shariah*, Otoritas Jasa Keuangan, viewed 3 May 2024, <<https://ojk.go.id/id/berita-dan-kegiatan/info-terkini/Pages/Uang-di-Bank-Aman-dan-Sah-Sesuai-Syariah.aspx>>.

Seetharaman, A & Raj, JR 2009, 'Evolution, development and growth of electronic money', *International Journal of E-Adoption (IJEa)*, IGI Globa, vol. 1, no. 1, pp. 76-94.

Shamsuddin, MMJ, Sitiris, M & Yunus, SM 2022, *Issues in the application of e-wallet in Malaysia: a juristic analytical study*, paper presented at the 10th Islamic Banking, Accounting And Finance International Conference 2022, Universiti Sains Islam Malaysia (USIM), Nilai, 13-14 September 2022.

Shukori, ARA & Borhan, JT 2018, 'Rule of current paper money: an analysis from Shariah Perspective', *Journal of Fatwa and Management Research*, vol. 12, no. 1, pp. 1-21.

Sifat, IM & Mohamad, A 2018, 'From metal to paper: validating paper money from Islamic perspective', *International Journal of Ethics and Systems*, vol. 34, no. 1, pp. 2-19.

The Malaysian Reserve 2021, *Pandemic pushes more than 80% growth for e-wallet players*, TMR Media Sdn Bhd Petaling Jaya, viewed 28 December 2021, <<https://themalaysianreserve.com/2021/10/18/pandemic-pushes-more-than-80-growth-for-e-wallet-players/>>.

W.Ramli, WN, Halim, HHA, Ismail, NF & Othman, S 2021, 'The application of e-wallet in Malaysia: an analysis of shariah point of view', *Al-Qanatir: International Journal of Islamic Studies*, vol. 23, no. 2, pp. 44-54.

Yaacob, SE 2014, 'The ruling of paper money usage: analysis based on the evolution of currency development', *Asian Social Science*, vol. 10, no. 3, pp. 86-93.

Zulkefli, A, Rusmadi, H & Aziz, AHA 2019, 'Application of e-wallet: a preliminary analysis from the Shariah perspective', *International Journal of Fiqh and Usul al-Fiqh Studies*, vol. 3, no. 2, pp. 98-105.