

**Author:**

<sup>1</sup>Fadli Daud Abdullah, <sup>2</sup>Doli Witro, <sup>3</sup>Misbahul Munir Makka, <sup>4</sup>Muhamad Sadi Is, <sup>5</sup>Syahid Mujahid Wiwaha

**Affiliation:**

<sup>1,2</sup>UIN Sunan Gunung Djati Bandung, Indonesia

<sup>3</sup>Institut Agama Islam Negeri Manado, Indonesia

<sup>4</sup>Universitas Islam Negeri Raden Fatah Palembang, Indonesia

<sup>5</sup>Al Azhar University, Egypt

**Corresponding author:**

[\\*doliwitro01@gmail.com](mailto:doliwitro01@gmail.com)

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## Contemporary Challenges for Sharia Financial Institutions to Increase Competitiveness and Product Innovation Perspective of Sharia Economic Law: Evidence in Indonesia

**Abstract:** Globalisation and technological advancement present contemporary challenges for Indonesia's Sharia Financial Institutions (LKS) in maintaining competitiveness and innovating. This study examines these challenges, including accelerating financial technology (fintech), regulatory changes, and rising consumer expectations for inclusive and efficient services. LKS is required to continuously innovate and create products that meet the needs of a dynamic market while still following the principles of Sharia economic law. This research discusses how LKS integrates fintech and Islamic financial technology in their operations. This research uses a qualitative method with a descriptive-analytical approach. Data were collected through a literature study and document analysis related to government regulations and policies regarding Sharia Financial Institutions. The literature study and document analysis also included laws and regulations related to Islamic finance, Islamic economic law regulations, academic articles (journals), and books that discuss product innovation and competitiveness challenges of Sharia Financial Institutions. This study found that regulations such as the Financial Services Authority Regulation (POJK) and the fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) provide a legal basis to support such innovation. However, LKS still faces challenges such as competition with conventional financial institutions, regulatory changes, and technological disruption. To remain competitive, LKS must adjust innovations such as Sharia fintech and crowdfunding following Sharia principles. In addition, public education on Sharia products is also important to increase financial inclusion. Through innovations such as factoring, bespoke financing, and solutions for online businesses, LKS can improve efficiency and empower small businesses while contributing to sustainable economic growth.

**Keywords:** Contemporary Challenges, Competitiveness, Islamic Financial Institutions, Product Innovation.

## INTRODUCTION

Globalization and technological advancements encourage financial institutions, including Sharia Financial Institutions, to continuously adapt to changes to maintain competitiveness. Product innovation in Sharia Financial Institutions is key to maintaining relevance while promoting inclusiveness, sustainability, and compliance with Sharia Economic Law (HES). Sharia Financial Institutions are increasingly important in a changing global economy, where the principles of Islamic economic law, grounded in Islamic ethics and morals, offer a fair, sustainable, and equitable alternative to wealth distribution. It provides solutions to modern economic challenges, especially in avoiding riba-based transactions.<sup>1</sup>

Sharia Financial Institutions (LKS) in Indonesia first appeared when Bank Muamalat was established in 1992.<sup>2</sup> Previously, BMT (Baitul Mal Wattamwil) has been present since 1984 as part of the Islamic Microfinance Institution (MFI).<sup>3</sup> Because Islamic banks are currently the gateway to developing the Islamic economy<sup>4</sup>, positive developments can be seen from the increasing types of Sharia Financial Institutions, the increase in assets under management, the variety of contract types, the products offered, and the growing market share. Establishing Bank Muamalat in 1991 as the first Sharia-based bank was a unique step, mainly because there was no specific regulation governing Islamic banking then. Unlike conventional banks that use an interest system, the bank operates on a profit

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<sup>1</sup> Abdullah AF, Abd Wahab, and Rahmawati Rahmawati, "Prinsip-Prinsip Ekonomi Syari'ah," *AL-MIKRAJ Jurnal Studi Islam dan Humaniora (E-ISSN 27454584)* 4, no. 1 (2023): 97, <https://doi.org/10.37680/almikraj.v4i1.3394>.

<sup>2</sup> Doli Witro, Neni Nuraeni, and Muhammad Fauzan Januri, "Classification of Aqad in Sharia Economic Law," *Nurani* 21, no. 1 (2021): 55–68, <https://doi.org/10.19109/nurani.v21i1.8387>.

<sup>3</sup> Hafni Khairunnisa and Fadli Abdullah, "Penerapan Prinsip Pembiayaan Murabahah Pada Kspps Bmt Nusa Ummat Sejahtera Kc. Cirebon Tinjauan Perspektif Hukum Islam," *Inklusif (Jurnal Pengkajian Penelitian Ekonomi Dan Hukum Islam)* 7, no. 2 (2022): 104, <https://doi.org/10.24235/inklusif.v7i2.11122>.

<sup>4</sup> Doli Witro, "Political Paradigm of Conventional Economics and Islamic Economics: Indonesian Sharia Bank Discourse," *Jurnal Justisia Ekonomika: Magister Hukum Ekonomi Syariah* 5, no. 2 (2021): 29–40, <https://doi.org/10.30651/justeko.v5i2.10993>.

and loss sharing system. The interest system was the main principle used by conventional banks in Indonesia until 1992, before the issuance of Law No. 7 of 1992 on banking, which gave banks the option to return loans with interest or profit-sharing imbalances.<sup>5</sup>

Products in Sharia Financial Institutions develop along with the development of the institution.<sup>6</sup> The introduction of various products started in the 1992s and has continued to grow until today. Islamic financial products were implemented in different periods, including fundraising, fund channeling, securities, service provision, payment systems, and other financial services. The innovation of various products and contracts results from the development of the existing types of Sharia financial institutions.<sup>7</sup> However, despite great potential, Sharia Financial Institutions face various challenges in maintaining and improving their competitiveness. These include accelerating financial technology (fintech) innovation, regulatory changes, and increased customer expectations for more efficient and inclusive services.<sup>8</sup>

Product innovation is about creating new products and formulating better and more sustainable financing, investment, and risk management solutions. In the context of Sharia Financial Institutions, product innovation requires them to bridge the gap between typical Sharia principles and the ever-changing market demands. This involves developing financial instruments that adhere to Islamic economics's legal principles while remaining competitive globally.<sup>9</sup>

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<sup>5</sup> Dudang Gojali, "Implementasi Hukum Ekonomi Syariah Pada Lembaga Keuangan Syariah," *Jurnal Ilmu Akuntansi dan Bisnis Syariah* 1, no. 2 (2019): 122.

<sup>6</sup> Darti Busni et al., "Implementation of the Hybrid Contract Concept in Multiservice Ijarah Financing as a Financing Alternative Health Service in the Covid-19 Pandemic," *JURIS (Jurnal Ilmiah Syariah)* 21, no. 1 (February 3, 2022): 11–25, <https://doi.org/10.31958/juris.v21i1.5173>.

<sup>7</sup> Dewi Putri Mandiri, Widi Astuti, and Siti Arkoyah, "Tantangan Perkembangan Perbankan Syariah di Indonesia," *Jurnal Tabarru' : Islamic Banking and Finance* 5, no. November (2022): 353.

<sup>8</sup> Randika Fandiyanto et al., "Perkembangan Fintech Dalam Meningkatkan Transaksi Digital UMKM Di Indonesia," *Journal of Digital Business Research* 1, no. 1 (2024): 15–26, <https://unars.ac.id/ojs/index.php/JDBR/article/view/5098>.

<sup>9</sup> Muhammad Iqbal Fasa, "Tantangan dan Strategi Perkembangan Perbankan Syariah di Indonesia," *Jurnal Ekonomi Islam* 2, no. 35 (2013): 19–20.

This study reviews how product innovation in Sharia Financial Institutions can help address these challenges and, at the same time, strengthen their role in the global economy. The author also explores the contemporary challenges of product innovation to financial inclusion, financial system stability, and sustainable economic growth. Furthermore, the author examines Islamic economic law's perspective in forming and regulating these product innovations and how their implementation can create a sustainable and ethical framework.

This research offers a unique perspective on studying Sharia Financial Institutions by connecting product innovation, Islamic economic law, and the contemporary challenges faced. The rapid development of the financial industry, especially in the era of digitalization and global competition, triggers Sharia Financial Institutions to adapt and innovate immediately. Some previous studies have addressed related topics, such as the research by Khikmatin and Setianingsih on the analysis of opportunities and challenges for Sharia financial institutions in increasing competitiveness against conventional financial institutions in Indonesia; Hidayat's study on the opportunities and challenges faced by Sharia financial institutions in enhancing competitiveness within the ASEAN Economic Community; and Fasa's research on the challenges and strategies for the development of Islamic banking in Indonesia. Although many studies have explored product innovation in the context of LKS, there is still a lack of literature that deeply discusses the role of Islamic law and contemporary law in developing such innovation. Hence, this study seeks to fill the void by presenting a comprehensive analysis. The novelty of this research lies in the approach that integrates the perspectives of Islamic economic law and contemporary law, as well as its implications for the challenges and opportunities faced by Sharia Financial Institutions.<sup>10</sup>

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<sup>10</sup> Tania Putri Fiyantika and Fauzatul Laily Nisa, "Tantangan Ekonomi Syariah dalam Menghadapi Masa Depan di Era Globalisasi," *Economic and Business Management International Journal* 6, no. 2 (2024): 106.

This research aims to explore the role of product innovation in increasing Sharia Financial Institutions' competitiveness from the perspective of Islamic economic law.<sup>11</sup> Thus, the results of this study can comprehensively explain how product innovation plays a key role in boosting the competitiveness of Sharia Financial Institutions while strengthening the legal principles of Islamic economics in the context of a changing global economy. This research will not only enrich the body of knowledge in Islamic finance but also provide practical guidance for stakeholders in the industry to face challenges and capitalize on opportunities.

## METHOD

This research uses a qualitative and descriptive-analytical approach to dig deeper into Sharia Financial Institutions' contemporary challenges in improving competitiveness and product innovation in Indonesia.<sup>12</sup> The researcher chose this method because it can provide a comprehensive understanding of the dynamics in Sharia Financial Institutions, especially from the perspective of Islamic economic law, which is the main focus of this research.<sup>13</sup> The qualitative approach allows researchers to deeply analyze social phenomena through descriptive data derived from secondary sources.<sup>14</sup> Data was collected through literature study<sup>15</sup> and document analysis related to government regulations and policies regarding Sharia Financial Institutions. The literature study includes a review of previous works related to product innovation and the challenges of competitiveness of Sharia

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<sup>11</sup> Amiruddin Kadir Nur Afifah, Rahmawati Muin, "Analisis Kerangka Hukum Keuangan Islam," *Jurnal de Facto* 10, no. 2 (2024): 248-249.

<sup>12</sup> Fadli Daud Abdullah et al., "Analisis Perdagangan Internasional Melalui Model Politik Heckscher-Ohlin terhadap Kepentingan Ekonomi Nasional Pespektif Hukum Ekonomi Islam," *Al Ushuliy: Jurnal Mahasiswa Syariah Dan Hukum* 2, no. 2 (2023): 251, <https://doi.org/10.31958/alushuliy.v2i2.11483>.

<sup>13</sup> Anggito, Albi, and Johan Setiawan. *Metodologi Penelitian Kualitatif*, (CV Jejak Publisher, 2018), 7.

<sup>14</sup> Mhd Rasidin et al., "The Mapping Verses and Application of the Linguistic Approach and Uşūl Fiqh Toward the Law of Adultery," *El-Mashlahah* 14, no. 1 (2024): 21-42, <https://doi.org/10.23971/el-mashlahah.v14i1.7354>.

<sup>15</sup> Shinta Azzahra Sudrajat, Arzam Arzam, and Doli Witro, "Legal Protection in Labor Dispute Settlement Through Industrial Relations Mechanism," *Khazanah Hukum* 4, no. 1 (2022): 1-9, <https://doi.org/10.15575/kh.v4i1.17027>; Dena Ayu et al., "A Sociological Approach to Consumer Protection in E-Commerce Transactions During the Covid-19 Pandemic," *Khazanah Hukum* 4, no. 3 (2022): 181-91, <https://doi.org/10.15575/kh.v4i3.18690>.

Financial Institutions, especially in the context of Islamic economic law.<sup>16</sup> A literature study and document analysis were conducted, encompassing laws and regulations related to Islamic finance, Islamic economic law, fatwas issued by the DSN-MUI, academic articles (journals), books<sup>17</sup>, and other library materials discussing product innovation and the challenges of competitiveness faced by Sharia Financial Institutions.

## RESULTS AND DISCUSSION

### The Role of Sharia Financial Institutions in Increasing the Competitiveness of Product Innovation from the Perspective of Sharia Economic Law

LKS plays an important role in improving the competitiveness of product innovation through compliance with various regulations and fatwas governing Sharia-based financial technology. The Financial Services Authority Regulation (POJK) and Bank Indonesia Regulation (PBI) provide a clear legal framework for the operations of Sharia Financial Institutions. For example, POJK No. 77/POJK.01/2016 regulates peer-to-peer lending (P2PL) and requires these institutions to meet specific standards in terms of licensing, risk mitigation, and governance.<sup>18</sup> It creates a strong legal foundation for product innovation following Sharia principles issued by the National Sharia Council-Majelis Ulama Indonesia (DSN-MUI).<sup>19</sup>

DSN-MUI Fatwas, such as Fatwa Number 117/DSN-MUI/IX/2018, serve as guidelines for implementing Sharia principles and provide a reference for Sharia Financial

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<sup>16</sup> Rukajat, Ajat. *Pendekatan Penelitian Kualitatif Qualitative Research Approach*, (Deepublish, 2018), 21.

<sup>17</sup> Doli Witro, "State Islamic University Students' Perceptions of Israel-Affiliated Products: A Study After the Fatwa of Indonesia Ulema Council No. 83 of 2023 Concerning the Law on Support for the Palestinian Struggle," *Al-Manahij: Jurnal Kajian Hukum Islam* 18, no. 1 (2024): 145-60, <https://doi.org/10.24090/mnh.v18i1.10554>; Muhamad Izazi Nurjaman and Doli Witro, "The Relevance of the Theory of Legal Change According to Ibnu Qayyim Al-Jauziyyah in Legal Products by Fatwa DSN-MUI Indonesia," *El-Mashlahah* 11, no. 2 (2021): 164-86, <https://doi.org/10.23971/elma.v11i2.3181>.

<sup>18</sup> Abdul Wahab and Ilma Mahdiya, "Peran Lembaga Keuangan Syariah Terhadap Pertumbuhan UMKM dalam Revitalisasi Ekonomi Pembangunan di Indonesia," *Jurnal Pemikiran Islam* 24, no. 1 (2023): 113-14.

<sup>19</sup> Pitriani et al., "Re-Reading Al-Uqud Al-Murakkabah: Types and Models of Hybrid Contracts Concept in Fatwa DSN-MUI," *Khazanah Hukum* 6, no. 2 (2024): 172-88, <https://doi.org/10.15575/kh.v6i2.34717>.

Institutions in developing innovative products. In the context of Islamic economic law, the principles contained in the Qur'an and Hadith provide a strong basis for the operations of LKS. For example, Q.S. al-Ma'idah (5) verse 1, which underlines the importance of fulfilling contracts honestly, and Q.S. al-Nisa's (4) verse 29, which warns against unlawfully exploiting other people's wealth, The Qur'an and Prophetic Hadith emphasize that transactions should be based on fairness and legitimate agreements. Moreover, Q.S. al-Nisa' (4) verse 58 and a Prophetic Hadith highlight the obligation to maintain trust, as reflected in the recommendation to pay workers before their sweat dries, reflecting the need for justice in every transaction.<sup>20</sup>

LKS also functions as a mediator that helps MSMEs obtain capital through product innovations that follow Sharia principles. In this case, the DSN-MUI fatwa No. 117/DSN-MUI/II/2018 explains that information technology-based financing services must consider legal provisions and restrictions to avoid deviating from Sharia principles. It creates trust among business actors, encouraging the community's economic growth. Furthermore, by adopting information technology, LKS can create more competitive and innovative products that meet market needs. It is also in line with the fiqh rule, which states that all forms of *muamalat* are permissible as long as there is no evidence to forbid them. In this context, LKS must continue to innovate and adapt to technological developments to increase its competitiveness.<sup>21</sup>

The fatwa referring to the relationship between *ijab* and *qabul* in a contract shows the importance of transparency and clarity in financial transactions. As mentioned, the contractual assembly links the two parties in a transaction. In this context, product innovation in LKS must consider Sharia aspects, including avoiding harmful or unfair

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<sup>20</sup> Fatwa DSN-MUI No. 117/DSN-MUI/II/2018 Layanan Pembiayaan Berbasis Teknologi Informasi Berdasarkan Prinsip Syariah.

<sup>21</sup> Nur Diana, "Mekanisme Layanan Peer To Peer Lending dalam Tinjauan Syariah Berdasarkan Fatwa DSN MUI No. 117/DSN-MUI/II/2018 (Studi Kasus PT Ammana Fintek Syariah)," *Jurnal Riset Perbankan Prodi Perbankan Syariah* 2, no. 1 (2018): 2.

practices.<sup>22</sup> Therefore, innovations in technology-based financing (fintech) that comply with sharia principles, as stated in the fatwa on technology-based financing, are highly relevant.<sup>23</sup>

The existence of the Sharia Supervisory Board (DPS) in Sharia Financial Institutions is essential. The DPS functions to ensure that all products offered comply with Sharia principles. In POJK Number 37/POJK.04/2018, it is stipulated that equity crowdfunding providers must have a DPS and include a statement in the articles of association regarding the suitability of activities with Sharia principles. It creates trust among investors and service users, which in turn increases the competitiveness of the institution. In the context of Islamic economic law, LKS is not only tasked with fulfilling customers' financial needs but also contributing to the social and economic welfare of the community. One of the arguments underlying the importance of product innovation in LKS is that the products offered must follow Sharia values and benefit society, especially in addressing social problems such as poverty and economic injustice.<sup>24</sup>

Financial technology in Indonesia is relatively new, but it has shown significant development and brought many benefits to the community. Various types of financial technology have been regulated in several regulations. For example, fintech lending is regulated by POJK Number 77/POJK.01/2016 on Information Technology-Based Lending and Borrowing Services, while payment fintech is regulated by PBI Number 19/12/PBI/2017 on Financial Technology Implementation, as well as other relevant regulations. However, the lack of clarity in the POJK and PBI on implementing the fatwa may hinder innovation.<sup>25</sup> The incompleteness of these provisions indicates the need for

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<sup>22</sup> Mida Safitriani et al., "Penerapan Konsep Hybrid Contracts dalam Operasional Transaksi Letter of Credit Perdagangan Internasional di Bank Muamalat Indonesia," *Nuansa Jurnal Studi Islam Dan Kemasyarakatan* 16, no. 2 (2023): 131, <https://doi.org/10.29300/njsik.v16i2.13555>.

<sup>23</sup> Achmad Basori Alwi, "Pembiayaan Berbasis Teknologi Informasi ( Fintech ) Yang Berdasarkan Syariah Pendahuluan Kegiatan Pinjam Meminjam Uang Yang Dilakukan Secara Langsung Dengan Berdasar Pada Perjanjian , Baik Yang Diperjanjikan . Praktik Tersebut – Menurut Banyak Pihak," *Jurnal Pemikiran dan Pembaharuan Hukum Islam* 21, no. 2 (2018): 251.

<sup>24</sup> Christopher Pribadi, "implementasi equity crowdfunding berbasis teknologi informasi berdasarkan peraturan otoritas jasa," *Indonesian Notary* 2, no. 5 (2020): 5.

<sup>25</sup> Dharmasisya, Jurnal Fakultas, and Lusi Yolanda, "Finansial Teknologi Berbasis Syariah: Pengaturan dan Kedudukannya dalam Hukum Indonesia," *Jurnal Fakultas Hukum Universitas Indonesia* 1, no. 23 (2022): 5.



synchronization between fatwas and formal regulations so that Sharia Financial Institutions can operate more efficiently and effectively.

Product innovation implemented by LKS acts as a solution to the economic challenges faced by the community. For example, Islamic fintech products that provide broader access to financing can accelerate financial inclusion and reduce economic disparities. Therefore, LKS must compete with conventional financial institutions and offer financially beneficial products that contributing to social development.<sup>26</sup> The following is the role of LKS in increasing the competitiveness of product innovation from the perspective of Sharia Economic Law:

### 1. Technology Integration in Financial Services

LKS needs to continue developing innovative financial products that follow Sharia principles. By introducing products such as information technology-based financing, LKS can attract a broader market segment, including the younger generation who are more familiar with technology. These innovative products may include Sharia crowdfunding, peer-to-peer financing, and Sharia-compliant mobile banking applications.<sup>27</sup>

DSN-MUI Fatwa Number 117/DSN-MUI/II/2018 emphasizes the importance of electronic systems and information technology in implementing Islamic financial services. By implementing modern technology such as mobile banking applications and sharia crowdfunding platforms, LKS can deliver innovative products that are faster, more transparent, and easily accessible. It not only improves the competitiveness of LKS in an increasingly competitive market but also encourages financial inclusion, enabling more individuals and small businesses to gain access to financing that complies with Sharia principles.<sup>28</sup>

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<sup>26</sup> Eko Rial Nugroho, "Implementation Of Sharia-Compliance In Islamic Bank Product Innovations," *Prophetic Law Riview* 3, no. 2 (2021): 173-197, <https://doi.org/10.20885/PLR.vol3.iss2.art4>.

<sup>27</sup> Fouad H. Al-Salem, "Islamic Financial Product Innovation," *International Journal of Islamic and Middle Eastern Finance and Management* 2, no. 3 (August 28, 2009): 187-200, <https://doi.org/10.1108/17538390910986326>.

<sup>28</sup> Yudha Prakarsa and Karya Wiguna, "Analysis Of The Use Of Sharia Financial Technology ( Fintek ) Services Study On Application Services At Pt . Ammana Fintech Shari ' Ah According To The Fatwa Of Dsn Mui And Islamic Law," *Journal of Humanities and Social Studies* 06, no. 02 (2022): 187.

## 2. Financing Agreements and Social Welfare

LKS also plays a role in improving the accessibility of financial services in underserved areas. By using information technology, LKS can expand the reach of its services, enabling more individuals and small businesses to obtain Sharia-compliant financing. It is important to foster economic growth in those areas.<sup>29</sup>

Applying Islamic contracts such as *mudharabah*, *musyarakah*, and *qardh* in technology-based financing services improves the community's welfare. By facilitating cooperation between lenders and recipients of financing through fair and transparent contracts, LKS not only creates better business opportunities but also positively contributes to poverty alleviation.<sup>30</sup> It is important, given that LKS is expected to function not only as a profit-oriented institution but also as an agent of social change capable of reducing economic inequality.

## 3. Poverty Alleviation and Economic Equality

Sharia Financial Institutions also have a role in alleviating poverty and promoting economic equality. The principles of Islamic economic law emphasize justice and a more equitable distribution of wealth. Therefore, these institutions can participate in financing projects that provide more significant social and economic benefits to the community, such as through the distribution of zakat, utilizing the insurance sector, increasing the income and business of the community to bring prosperity, such as through funding MSMEs, so that it can have a positive value for economic improvement in the community as an effort to alleviate poverty.<sup>31</sup>

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<sup>29</sup> Cucu Susilawati et al., "Comparative Study on the Regulation of Sharia Financial Technology in Indonesia and Malaysia," *Jurisdictie: Jurnal Hukum Dan Syariah* 12, no. 1 (July 15, 2021): 1-19, <https://doi.org/10.18860/j.v12i1.12213>.

<sup>30</sup> Muhammad Irkham Firdaus et al., "Implementation of the Qardh Agreement on the Financial Technology Lending Platform in the Development of Small and Medium Enterprises (SME) in Indonesia," *Al-Iktisab: Journal of Islamic Economic Law* 6, no. 1 (May 26, 2022): 65-78, <https://doi.org/10.21111/al-iktisab.v6i1.7774>.

<sup>31</sup> Endah Pravita et al., "Peran Lembaga Keuangan Syariah dalam Pengentasan Kemiskinan Di Indonesia," *Jurnal Kesehatan Tambusai* 3, no. 4 (2022): 572-73.

LKS contributes to financial inclusion by providing affordable and accessible services to people who do not have access to traditional banking services. By implementing people-oriented business models, such as community-based financing, LKS can help address poverty issues and improve people's welfare.<sup>32</sup>

#### 4. Education and Public Awareness

LKS can also play a role in improving public education and awareness of Islamic financial products. They can organize education and training programs to ensure that people understand the principles of Sharia economic law and the benefits of Islamic financial products. More broadly, LKS has a role in supporting national economic growth. By financing Sharia-compliant economic sectors and creating innovative products, they can be a significant driver of economic growth.<sup>33</sup>

One aspect that distinguishes LKS is its resilience to the monetary crisis. It is because such institutions operate based on Islamic economic principles that do not involve high interest and econometric practices. In the context of product innovation, Sharia Financial Institutions can focus more on developing stable and sustainable products without worrying too much about sharp market surges. In enhancing the competitiveness of product innovation, Sharia Financial Institutions can also contribute to healthy competition between banks. In the Islamic economic system, competition is driven by better quality products and services, not by lower interest rates. It encourages Islamic banks to innovate to fulfill customers' continuous needs more efficiently and ethically.<sup>34</sup>

Compliance with Sharia principles is essential to maintaining public trust in LKS. By following the guidelines the fatwa and relevant authorities set, LKS can ensure that all products and services offered are legal and ethical. It will enhance the reputation of the

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<sup>32</sup> Nurul Aulia, Dhiauddin Tanjung, and Hasan Matsum, "The Application of Zakat on Business Results as a Strategic Effort to Build the Economy of the People of Medan City," *Journal Of Law, Politic, and Humanities (JLPH)* 4, no. 5 (2024): 1559-1568, <https://doi.org/10.38035/jlph.v4i5.528>.

<sup>33</sup> Biki Zulfikri Rahmat Lina Marlina, "Peran Lembaga Keuangan Syariah dalam Mengimplementasikan Keuangan Inklusif Bagi Pelaku UMKM Tasikmalaya," *Jurnal Ecodemica* 2, no. 1 (2018): 126-27.

<sup>34</sup> Dewi Sukma Kristianti, "Integrasi Prinsip Syariah dalam Fungsi Intermediasi Lembaga Keuangan Syariah," *Jurnal Hukum* 3, no. 2 (2020): 326, <https://doi.org/10.22437/ujh.3.2.315-339>.

LKS and attract more customers. The following table summarises the role of LKS in improving the competitiveness of product innovation from the perspective of Islamic economic law, accompanied by a brief explanation in Table 1.

**Table 1.**

The Role of LKS in Improving Product Competitiveness and Innovation

Service Model	Description	Benefits	Sharia Principles
<b>Integration of Technology in Services</b>	The utilization of information technology in Islamic financial services, such as through mobile banking applications, has become increasingly prevalent.	Accelerate access to funding for MSMEs to improve transparency and service efficiency.	Comply with Sharia principles through transparent and fair contracts.
<b>Financing and Welfare Agreements</b>	The application of various Sharia-compliant contracts in technology-based financing.	Increase accessibility of financing for the community, promote economic growth, and reduce inequity.	Emphasizing fairness, honesty, and sustainability in every transaction.
<b>Poverty Alleviation</b>	Financing social projects that provide economic benefits.	Promote economic equity and help underserved communities by providing access to affordable finance.	Implement the principles of more equitable wealth distribution and social responsibility.
<b>Education and Public Awareness</b>	Educational programs to increase public understanding of Islamic financial products.	Increase public awareness, strengthen trust in LKS, and support national economic growth.	Based on the principles of openness, transparency, and education in financial transactions.

Source: Author's interpretation

LKS plays an important role in improving the competitiveness of product innovation by applying Sharia principles in every aspect of its operations. By integrating technology, LKS can expand its service reach and attract a broader market segment, especially MSMEs. Applying various Sharia contracts ensures that transactions are conducted fairly and transparently, thus supporting social welfare. In addition, LKS is committed to alleviating poverty through projects that provide social and economic benefits and increasing public awareness of Islamic financial products through educational programs. Thus, LKS focuses on profitability and contributes to sustainable social and economic development.

### **Contemporary Challenges of Sharia Financial Institutions in Improving Competitiveness Product Innovation**

LKS is important in improving product competitiveness through innovations that align with Islamic economic law principles. During global competition and technological advances, LKS is faced with the need to develop financial products that are not only innovative but also fulfill the requirements of Islamic economic law. This role is becoming increasingly significant given the contemporary challenges faced, such as digital disruption, competition with conventional financial institutions, and regulatory changes in the financial sector.<sup>35</sup>

Islamic economic law is a legal system that regulates economic activities based on sharia principles, including justice, transparency, and the prohibition of usury and *gharar* (uncertainty). From a contemporary perspective, Islamic economic law regulates traditional transactions such as *murabahah*, *ijarah*, and *mudarabah*, but also accommodates modern innovations in technology-based financing, such as Islamic fintech and Islamic crowdfunding. It shows that Islamic economic law is adaptive to the times, as long as the

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<sup>35</sup> Muhammad Hamdan et al., "Kiprah dan Peranan Lembaga Keuangan Syariah dalam Ekonomi Global : Faktor Pendukung , Penghambat Dan Peluang Yang," *Journal of Islamic Economics Studies and Practices* 1, no. 2 (2022): 245.

basic principles of sharia are adhered.<sup>36</sup> In the context of LKS, financial product innovation attracts more customers or increases profitability and aims to realize maqashid sharia (sharia objectives)<sup>37</sup> to maintain the community's welfare through fair and inclusive distribution. Some of the innovations produced by LKS include sukuk (Sharia bonds), Sharia financing cards, and microfinance products for Sharia-based MSMEs.<sup>38</sup>

LKS faces various challenges in developing product innovations that can compete in the global market. One of the main challenges is the constantly changing regulations and policies, both at the national and international levels. LKS must ensure its products comply with applicable regulations, often requiring significant product design and governance adjustments. This adaptation process can take time and resources, especially when Shariah regulations are stricter than those in conventional financial institutions.<sup>39</sup>

In addition, Islamic technology and fintech development offers excellent opportunities but poses significant challenges. On the one hand, technology allows LKS to reach a broader market through digitizing financial services, such as Sharia mobile banking and Sharia-based crowdfunding platforms. On the other hand, LKS must ensure that the technology adopted still complies with the principles of sharia economic law, such as transparency and fairness in transactions. Therefore, technology-based innovation must be accompanied by an in-depth assessment of its compliance with Sharia.<sup>40</sup>

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<sup>36</sup> Arief Budiyo, Achmad Nur Sholeh, and Asep Erlan Maulana, "Islamic Economic In Indonesia Last Ten Years ( 2012-2022 ); A Bibliometric Analysis," *International Journal of Social and Management Studies* 4, no. 01 (2023): 113.

<sup>37</sup> Doli Witro, "Maqashid Syari'ah as a Filter of Hoax through Al-Quran Perspective," *Jurnal Ilmiah Al-Syir'ah* 18, no. 2 (2020): 187-200, <https://doi.org/10.30984/jis.v18i2.1133>; Asa'ari Asa'ari et al., "Urgensi Pemahaman Terhadap Maqashid Al-Syari'ah Dan Perubahan Sosial Dalam Istibath Al-Ahkam," *De Jure: Jurnal Hukum Dan Syar'iah* 13, no. 2 (2021): 222-39, <https://doi.org/10.18860/j-fsh.v13i2.13818>; Asa'ari Asa'ari et al., "Considering Death Penalty for Corruptors in Law on Corruption Eradication from the Perspective of Maqāsid Al-Syari'ah," *Samarah* 7, no. 2 (2023): 920-36, <https://doi.org/10.22373/sjhc.v7i2.14944>.

<sup>38</sup> Yayat Rahmat Hidayat, "Analisis Peluang dan Tantangan Lembaga Keuangan Syariah Untuk Meningkatkan Daya Saing Menghadapi Masyarakat Ekonomi Asean," *Jurnal Ekonomi Dan Keuangan Syariah* 2, no. 2 (2018): 175.

<sup>39</sup> Vita Arumsari and Rikawati Rikawati, "Islamic Social Funds: Enabling the Unable to Be Able," *Journal of Applied Business Administration* 4, no. 1 (March 31, 2020): 88-97, <https://doi.org/10.30871/jaba.v4i1.1902>.

<sup>40</sup> Muhammad Nur Asmawi et al., "Kebijakan Pendidikan Islam pada Era Globalisasi , Pasar Bebas dan Revolusi Industri 4.0," *Journal of Pedagogy* 1, no. 2 (2018): 103.

LKS must also compete with conventional financial institutions with more excellent resources and flexible regulations. Conventional institutions are often able to innovate faster because the rules they follow are not as strict as Sharia. LKS needs to develop a reactive and proactive innovation strategy to offer Sharia-compliant products that are attractive to the public. Product innovation is the key for LKS to maintain its competitiveness in the face of increasingly fierce competition.<sup>41</sup>

LKS plays an important role in strengthening the competitiveness of Sharia-based product innovation by following appropriate regulations, especially when implementing Sharia financial technology. However, DSN Fatwa No. 117/DSN-MUI/IX/2018 is the foundation for implementing Sharia principles in financial technology, such as P2PL and ECF, and regulations, such as POJK No. 77/POJK.01.2016 governing P2PL financial technology and POJK No. 37/POJK.04/2018 on Equity Crowdfunding still do not specifically mandate the implementation of Sharia-based financial technology. It creates a dilemma regarding the effective implementation of Sharia principles in financial technology, where Sharia provisions rely more on DSN-MUI fatwas than formal regulations in POJK or PBI.<sup>42</sup>

In the context of product innovation, LKS must bridge this regulatory gap by ensuring that products such as P2PL and ECF services comply with Sharia principles even though they are not always clearly regulated in formal regulations. This shows that LKS plays a role in product development and ensuring Sharia compliance through internal supervisory mechanisms such as the Sharia Supervisory Board (DPS). As such, LKS has an important responsibility to maintain harmony between product innovation and compliance with Sharia law, which can enhance the competitiveness of their products in the global market. In this case, the synergy between formal regulations and DSN-MUI fatwas is key to ensuring that innovations made by LKS remain following Sharia provisions,

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<sup>41</sup> Hidayat, "Analisis Peluang Dan Tantangan Lembaga Keuangan Syariah Untuk Meningkatkan Daya Saing Menghadapi Masyarakat Ekonomi Asean." 146.

<sup>42</sup> Dharmasisya, Fakultas, and Yolanda, "Finansial Teknologi Berbasis Syariah: Pengaturan dan Kedudukannya dalam Hukum Indonesia." 5.

thus increasing competitiveness in the market and strengthening the legitimacy of Sharia products in the eyes of the public.

The next challenge is the low public understanding of Sharia products. Customer education and product promotion are crucial to increasing public awareness of the benefits of Islamic products. LKS must develop innovative strategies to educate customers through digital campaigns and broader Islamic financial literacy programs. Understanding Islamic products will encourage people to prefer Islamic financial services.<sup>43</sup>

Various studies show that product innovation in LKS is crucial, not only to improve competitiveness but also to expand financial inclusion.<sup>44</sup> Product innovations such as Islamic mobile banking and Islamic microfinance are important in expanding access to finance, especially in developing countries. The success of such innovations relies heavily on the ability of LKS to integrate technology effectively without ignoring Sharia principles.<sup>45</sup> These findings confirm that product innovation in LKS is a market necessity and an important contribution to global financial inclusion.

In addition to technology-based product innovation, Islamic philanthropy also plays an important role in strengthening innovation in Sharia Financial Institutions. Islamic philanthropy, such as zakat, *sadaqah*, and waqf, can be integrated into Islamic financial products to support inclusive and social welfare-oriented innovation.<sup>46</sup> From a contemporary perspective, Islamic philanthropy is not limited to distributing funds for charity. However, it can also be used to develop products such as productive and sukuk waqf. These products allow philanthropic funds to be invested in profitable projects, with the proceeds used to support society. For example, some LKS have developed cash and sukuk waqf products to fund infrastructure and social development projects. With such innovations, LKS increases competitiveness and provides a broader social impact. The use

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<sup>43</sup> Fiyantika and Nisa, "Tantangan Ekonomi Syariah Dalam Menghadapi Masa Depan di Era Globalisasi." 108.

<sup>44</sup> Nur Afifah, Rahmawati Muin, "Analisis Kerangka Hukum Keuangan Islam." 248.

<sup>45</sup> Fadli Daud Abdullah Muhamad Izazi Nurjaman, "Sistem Marketing Rentenir : Skema Baru Perluasan," in *Gunung Djati Conference Series*, vol. 42, 2024, 300.

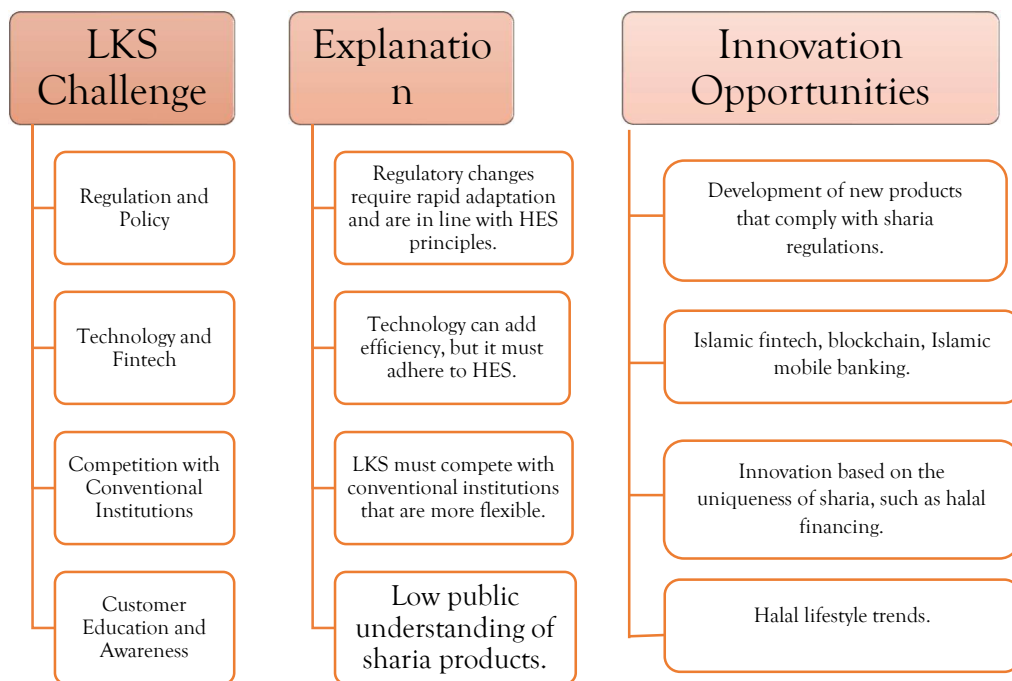
<sup>46</sup> Ahmad Dwi Nuryanto, Khaidar Alifika, and El Ula, "Peran Lembaga Keuangan Sosial Syariah di Indonesia Menuju Tranformasi Digital," *Jurnal Ilmiah Mahasiswa Perbankan Syariah* 4, no. 1 (2024): 369.



of waqf in a productive form also shows how Islamic philanthropy can be integrated into modern financial services, making philanthropy a practical resource for Islamic finance innovation.<sup>47</sup> This study presents a chart or scheme that illustrates the various challenges and opportunities LKS faces, as shown in Figure 1.

**Figure 1.**

Challenges and Opportunities of LKS in the Contemporary Era



This visual scheme can clarify the relationship between challenges, product innovation, and how Islamic philanthropy plays a role in developing LKS product competitiveness. LKS faces various contemporary challenges that have the potential to affect its competitiveness and product innovation. One of the main challenges is the constantly changing regulations and policies, where LKS must make rapid adaptations and

<sup>47</sup> Duniyati, "Optimalisasi Asset Wakaf Melalui Sukuk Wakaf di Indonesia," *Duniyati Ilmiah Jurnal Ekonomi Syariah Indonesia* 9, no. 2 (2019): 141.

be consistent with the principles of Islamic economic law.<sup>48</sup> This opens up opportunities to develop new products that comply with Sharia regulations, which can increase public trust in LKS. In addition, the development of technology and fintech also presents its challenges. Although technology can improve operational efficiency, LKS must ensure that adopting such technology complies with HES principles. However, opportunities arising from these challenges include integrating Islamic fintech, using blockchain, and developing Islamic mobile banking to increase the accessibility of Islamic financial services.<sup>49</sup>

Competition with conventional financial institutions is also a challenge for LKS. Conventional institutions often have greater flexibility in regulation and resources, forcing LKS to find ways to compete effectively. In this context, innovation opportunities based on the uniqueness of Sharia, such as halal financing products, can be a competitive advantage that differentiates LKS from conventional institutions. In addition, the low level of public awareness and understanding of Sharia products is a significant challenge for LKS. To overcome this, LKS needs to implement more effective educational strategies to increase public understanding of the benefits of Islamic products. With an innovative approach, LKS can design more attractive products that align with market needs and encourage the growth of public awareness and acceptance of Islamic products.

### **Strategy of Sharia Financial Institutions in Increasing the Competitiveness of Product Innovation**

The strategy of Sharia Financial Institutions (LKS) in increasing the competitiveness of product innovation can be seen through several mechanisms and contracts that have been mentioned. Each financing mechanism offers advantages that have the potential to provide added value to Sharia Financial Institutions, especially in the context of facing competition in an increasingly tight market. The following is an analysis of each aspect:

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<sup>48</sup> Alvi Khikmatin, Putri Setianingsih, and Lembaga Keuangan Konvensional, "Analisis Peluang dan Tantangan Lembaga Keuangan Syariah Dalam Upaya Meningkatkan Daya Saing Terhadap Lembaga Keuangan Konvensional di Indonesia," *Jurnal Ekonomi Syariah* 3, no. 1 (2021): 58.

<sup>49</sup> Rezki Akbar Norrahman et al., "Peran Fintech dalam Transformasi Sektor Keuangan Syariah," *Jurnal Ilmu Bisnis, Ekonomi, Manajemen, dan Akuntansi* 1, no. 2 (2023): 103.

## 1. Factoring Financing

The strategy of Sharia Financial Institutions (LKS) in increasing the competitiveness of product innovation can be seen from the application of factoring financing mechanisms. In this scheme, the contract involving the legal relationship of debt and credit based on invoices provides legal certainty to both parties, namely the recipient of the financing and the lender. This creates transparency and security in transactions, which are important factors in attracting more customers, tiny businesses that need quick access to working capital. In addition, using information technology in bill management and collection processes helps LKS reduce operational costs and improve efficiency. These efficiencies contribute to product competitiveness, making them more competitive in the market and able to fulfill customer needs better.<sup>50</sup>

## 2. Purchase Order Financing

LKS's strategy in increasing the competitiveness of product innovation can be seen from the implementation of the purchase order financing mechanism. This mechanism allows LKS to become an intermediary that connects suppliers and buyers, thereby reducing credit risk and increasing trust between parties. By using sale-purchase, *musyarakah*, or *mudharabah* contracts, LKS offers flexibility in meeting the capital needs of business actors. It allows the LKS to tailor the financing package to the market's needs, attracting more clients. This approach also creates opportunities for LKS to compete more effectively in the market by proposing solutions responsive to client demands, especially in the technology-based trade sector. The flexibility of contracts and offerings to suit business needs helps LKS improve its competitiveness in an increasingly competitive Islamic finance market.<sup>51</sup>

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<sup>50</sup> Sinisa Bogdan Sasa Ivanovic, Suzana Baresa, "Factoring: Alternative Model of Financing Factoring: Alternative Model of," *Journal of Economics* 2, no. 2 (2011): 196.

<sup>51</sup> Zuel Fahmi, Muhammad Syafii Antonio, and Arip Rahman, "Implementasi Konsep Syirkah Al Amlak dalam Akad Al Musyarakah Al Muntahiyah Bi Al Tamlik ( MMBT ) Pada Produk Pembiayaan Purchase Order ( PO ) Financing Fintech Syariah ( Studi Kasus di PT Alami Fintek Sharia )," *Journal of Economics and Business* 8, no. 2 (2024): 7, <https://doi.org/10.33087/ekonomis.v8i2.2083>.

### **3. Goods Procurement Financing for Businesses that Sell Online**

LKS' strategy to increase the competitiveness of product innovation through procurement financing for businesses selling online is a very relevant step in today's digital era. With the increase in online transactions, the segment of businesses selling through e-commerce platforms has become a vast potential market. LKS can capitalize on this opportunity by providing financing explicitly tailored to the procurement needs of online sellers. The integration of financing services with e-commerce platforms facilitates business access and adds value to the services offered by LKS. It facilitates businesses in obtaining working capital more efficiently and accelerates the transaction and financing process. In addition, this integration also encourages product innovation from LKS, as it allows the development of financing products that are more adaptive and follow technological developments. With this strategy, LKS can expand its customer reach, increase competitiveness, and innovate in providing relevant financial solutions in the digital era, thus further strengthening its position in the Islamic finance industry.

### **4. Employees Financing**

The strategy of LKS Financial Institutions in improving the competitiveness of product innovation, primarily through financing for employees, is a practical strategic step. This financing service utilizes the stability of employee income as the main factor to reduce credit risk. With a guaranteed income, employees have a more predictable ability to pay, so lenders feel more secure and comfortable providing loans. It plays an important role in enhancing the attractiveness of financing products, as the default risk is lower than that of customers with non-fixed incomes<sup>52</sup>

LKS offers affordable consumptive financing for employees, creating an attractive incentive for this segment. By providing easy and tailored access to financing, LKS can strengthen customer loyalty, as employees will tend to choose institutions that understand their financial needs. In addition, this service also helps LKS establish long-term

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<sup>52</sup> Diana Sari Abd. Muin, "Konsep Murabahah dalam Pembiayaan Kesejahteraan Pegawai pada Bank Bjb Syariah Kcp Indramayu," *Journal of Sharia, Economic, and Finance* 2, no. 1 (2023): 38.

relationships not only with individual employees but also with the institutions where they work. Long-term cooperation with various institutions will broaden the customer base and improve the stability of LKS operations.<sup>53</sup> Overall, financing for employees is a product innovation strategy that enhances the competitiveness of LKS, not only due to lower credit risk but also due to personalized services that are relevant to customer needs, as well as the potential for developing long-term partnerships with various institutions.

## **5. Community-Based Financing**

A community-based financing strategy is one of the product innovations that can improve LKS' competitiveness. This approach encourages collaboration between business actors who are community members, thus creating synergy and strong social support. In this context, LKS utilizes the collective power of the community to increase financing capacity due to moral assurance and support among members. In addition, by expanding the distribution network through the community, LKS can reach more businesses, including those that may not have access to conventional financial services. This approach also helps to reduce financing risk, as shared responsibility within the community strengthens the control and supervision mechanism for smooth payments. As such, community-based strategies offer inclusive financial solutions and support more sustainable economic growth by empowering small and medium enterprises (SMEs) that are part of the community. It makes community-based financing products one of the important innovations that can strengthen the competitive position of LKS in the financial industry. The following table design illustrates the LKS strategy for improving the competitiveness of product innovation through several financing mechanisms, as contained in Table 2.

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<sup>53</sup> Susi Fitriana, Rosa, Octavianti, "Implementasi Akad Murabahah pada Produk Pembiayaan Kesejahteraan Pegawai (Pkp) Ib Masalahah Pada PT. Bank Jabar Banten Syariah Kcp Majalaya" 10 (2020): 60-75.

**Table 2.**

LKS Strategy in Improving Competitiveness and Product Innovation through Several Financing Mechanisms

No.	Financing Mechanism	LKS Strategy	Pros	Product Example
1.	<i>Murabahah</i>	Offers sale and purchase-based financing with transparent mark-up pricing	Lower risk because the object being traded is clear	Home and vehicle finance
2.	<i>Ijarah</i>	Develop Shariah-based rental products for movable and immovable assets	Following Sharia principles and can be used for productive or consumptive needs	Machinery and property lease financing
3.	<i>Mudharabah</i>	Enhance partnerships in profit-sharing-based business project financing	Reduce credit risk and provide flexible financing alternatives	Small and medium enterprise financing
4.	<i>Musyarakah</i>	Increasing investment collaboration through profit sharing between LKS and customers in business projects	Profits and risks are shared, increasing the sense of responsibility	Construction project financing
5.	<i>Istishna'</i>	Implementing financing for manufacturing and construction projects with staged payments	Suitable for the manufacturing sector and long-term projects	Specialized goods production financing
6.	<i>Salam</i>	Introduced goods order-based financing with an upfront payment	It provides upfront price certainty and is suitable for agriculture and commodity sectors	Agriculture and crop financing
7.	Factoring	Accelerate company cash flow by taking over trade receivables to increase productivity.	Improve company liquidity and reduce the burden of managing receivables	Company invoice financing
8.	Purchase Order Financing	Developing purchase order-based financing, optimizing working capital for companies	Speed up the production process procurement of goods and improve competitiveness.	Corporate order financing

9.	Peer-to-Peer Lending Syariah (P2PL)	Offering a Sharia-based digital financing platform with appropriate contracts, such as <i>mudharabah</i> and <i>wakalah</i>	Expanding access to financing for MSMEs and productive sectors quickly and efficiently	Digital-based MSME financing
10.	Equity Crowdfunding Syariah (ECF)	Raising funds through sharia-compliant equity investments with <i>musyarakah</i> and <i>mudharabah</i> principles.	Enables small businesses and startups to raise funds from multiple investors quickly	Sharia-based startup investment

Source: Author's interpretation

By utilizing mechanisms and contracts that follow Sharia principles, LKS can increase competitiveness through product innovation and build customer trust and loyalty. LKS must continue to adapt to technological developments and market needs to remain relevant and competitive. Product and service innovations tailored to customer characteristics and market trends can be the key to the success of LKS in facing challenges in today's digital era.<sup>54</sup>

Sharia Financial Institutions can also adopt innovative strategies to overcome the challenges. Sharia Financial Institutions must continue diversifying their products and services, including more inclusive financing, investing in sustainable projects, and offering innovative financial technology products. Then, socialization and education for the public about Islamic financial products should be enhanced through cooperation with educational institutions and the government. In addition, close cooperation with the government is key to creating an enabling environment for Islamic economic growth. This includes transparent and conducive regulations, fiscal incentives, and resource access support. Improving the quality of human resources who master both modern and Sharia

<sup>54</sup> Fadli Daud Abdullah et al., "Analisis Fatwa Dewan Syariah Nasional Majelis Ulama Indonesia Nomor 91/DSN-MUI/IV/2014 tentang Pembiayaan Sindikasi Pada Proyek Tol Solo-Yogyakarta oleh Bca Syariah," *Jurnal Integrasi Ilmu Syariah (Jisrah)* 4, no. 3 (2023): 281, <https://doi.org/10.31958/jisrah.v4i3.11464>.

economics in an integrative manner is also crucial, involving continuous training and education.<sup>55</sup>

Sharia Financial Institutions today increasingly need to focus on adopting financial technology to optimize their operations' efficiency. Doing so can provide better and more effective services to their customers. Financial technologies, such as digital banking applications, automated transaction maintenance, and sophisticated risk management systems, can help these institutions better overcome operational bottlenecks. Besides operational efficiency, using financial technology by Sharia Financial Institutions can also open up new opportunities for the community to participate in economic empowerment.

With a strong financial technology system, they can more easily provide financing for small and medium-sized enterprises and projects with positive social impact. This can help drive economic growth at the local and national levels while improving the lives of the disadvantaged. Sharia Financial Institutions can also utilize financial technology to improve financial inclusion. They can develop financial products and services that are more accessible to people who previously did not have access to the formal financial system. In doing so, they can actively expand access to safe and sustainable financial services to as many people as possible.<sup>56</sup>

In the context of product innovation, Sharia Financial Institutions have a unique advantage as they can focus more on developing stable and sustainable products. Due to the Shariah principles, ethical considerations are required in every investment and financial transaction. Sharia Financial Institutions can make desirability the primary objective in developing new products. They can confidently prioritize products that are environmentally and socially supportive and have a positive impact on society. As such, they need not worry too much about sharp market conditions that may affect their financial results.

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<sup>55</sup> Daryn Salsabila, "Implementasi dan Inovasi Pembiayaan Syariah Cash Waqf Linked Sukuk (CWLS)," *Al Itmamij: Jurnal Hukum Ekonomi Syariah* 5, no. 1 (2023): 37

<sup>56</sup> Lina Marlina, "Peran Lembaga Keuangan Syariah dalam Mengimplementasikan Keuangan Inklusif Bagi Pelaku UMKM Tasikmalaya." 575.



Sharia Financial Institutions can also play an active role in encouraging healthy competition between banks. They can do so by encouraging competition based on better quality products and services rather than focusing on lower interest rates. It can incentivize banks to improve their services continuously, develop more innovative products, and provide added value to their customers.<sup>57</sup>

By adopting these strategies, Sharia Financial Institutions can maintain their relevance and competitiveness in the face of various challenges in the financial market. They can continue to fulfill the needs of their customers while maintaining the Shariah values that underpin their operations. As such, Sharia Financial Institutions can become major players in creating an inclusive and sustainable financial ecosystem, harnessing the potential of innovation to impact society and the economy positively.

## CONCLUSION

Based on the description above, several points can be understood. First, Sharia Financial Institutions (LKS) have an important role in increasing the competitiveness of innovation products by applying Islamic economic law principles regulated by DSN-MUI fatwas and regulations such as POJK. LKS can integrate modern technology such as Sharia fintech to expand access to more inclusive and efficient financial services by ensuring that every transaction complies with Sharia principles. LKS supports national economic growth, alleviates poverty, and improves social welfare. Second, the contemporary challenge of LKS in improving the competitiveness of product innovation is that LKS faces various challenges, such as regulatory changes, competition with conventional financial institutions, and technological developments.

Nevertheless, LKS has an excellent opportunity to innovate in Sharia-based financial products by utilizing fintech and Sharia mobile banking. These innovations, if carried out following the principles of Sharia economic law and supported by DSN-MUI fatwas, can significantly increase the competitiveness of LKS in the global market. Public education on

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<sup>57</sup> Hamdan et al., "Kiprah dan Peranan Lembaga Keuangan Syariah dalam Ekonomi Global : Faktor Pendukung , Penghambat dan Peluang Yang."247-248.

Sharia products is also a key factor in expanding the acceptance and inclusion of Sharia-based finance. Third, LKS utilizes various innovative strategies to improve the competitiveness of its products, including financing mechanisms such as factoring, order financing, and online business support. By adopting financial technology and following the legal principles of Islamic economics, LKS can create more efficient, inclusive solutions that are adaptive to evolving market needs. Flexible sharia contracts, product diversification, and community collaboration are key to maintaining competitiveness and relevance in this digital era.

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