

## Navigating Sharia Compliance in the Digital Age: An Examination of Bank Indonesia's Hedging Swap Regulation (PBI 24/7/2022)

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**Abstract.** The present study aims to examine the alignment of Islamic values with the principles of efficiency and profitability, as contained in Bank Indonesia's Hedging Swap regulation, to ensure innovation in the digital financial sector. The objective of this study is to ascertain how the integration of contemporary banking law with fiqh can establish a framework that facilitates the development of Shariah compliant digital financial products that comply with financial law based on Islamic principles without compromising the capacity of banks to generate profits. This research adopted a qualitative methodology and a literature study approach, employing data processing techniques to collect and evaluate pertinent literature on digital financial products and Islamic jurisprudence. The data triangulation method was applied by sorting and extracting through a deductive approach to data interpretation specific to the research objectives. The study concluded that the *al-tahawwuth al-murakkab* contract successfully integrates Islamic principles, bank profits and the dynamics of the digital era. However, the approach is only relevant for commercial banks and does not fully support digital transformation in micro scale banks.

**Keywords:** Fiqh, Digital Finance Financial Technology, Banking Regulation, Financial products.

## 1 First Section

The evolving trend in people's lifestyles is often concomitant with the rapid advancement of technology, as evidenced by the proliferation of various digital transaction services, such as e-commerce and financial technology (Fintech), among Indonesians residing in major cities. Both services are projected to experience further

growth in 2025 and to continue their positive trajectory throughout 2024. The collaboration between fintech and e-commerce in payment services, exemplified by OVO, T-cash, DANA, and GO-PAY,<sup>1</sup> is a notable development. Statistics from Bank Indonesia<sup>2</sup> highlight a substantial surge in the adoption of virtual currencies. Specifically, in October 2023, the total value of electronic money transactions reached IDR 166.60 trillion, marking a 5% increase compared to the previous month and a substantial 25% annual growth. This surge in electronic money transactions signifies a promising development for the fintech movement, which is poised to contribute significantly to the Indonesian economy.

The advent of fintech has profoundly impacted the domain of Islamic finance, playing a pivotal role in its evolution and transformation. This technological advancement has given rise to a plethora of services, including investment platforms, peer-to-peer (P2P) Islamic financing mechanisms, and Shariah-compliant financial applications. These innovations have facilitated expedited access to Shariah-compliant financial products and services, thereby redefining the landscape of financial intermediation within the Islamic financial sector.<sup>3</sup> The compatibility of fiqh with financial products, particularly digital financial instruments, is a multifaceted issue that merits examination. The DSN-MUI's perspective on the legality and halalness of E-Money introduces uncertainty, necessitating a thorough study of this digital financial instrument to ensure its compliance with Islamic standards. Secondly, despite their popularity, virtual currencies such as cryptocurrencies do not satisfy the requirements of Islamic investment due to their highly speculative and volatile nature, which some consider to be similar to gambling, and the lack of official recognition and government regulations.<sup>4</sup>

Islamic financial instruments are subject to all prevailing Indonesian laws, including those pertaining to E-Money, as opposed to the standards established by Bank Indonesia. The utilization and operation of E-Money are regulated by specific directives issued by Bank Indonesia, the regulatory authority. These directives address concerns regarding security, transparency, and consumer protection. Sharia principles, as interpreted according to fiqh and Bank Indonesia regulations, must be adhered to by all Islamic financial products, including digital financial instruments such as Sharia E-Wallets. This phenomenon signifies that the emergence of Islamic digital financial products in Indonesia is a consequence of the convergence of national financial legislation and sharia principles.<sup>5</sup>

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<sup>1</sup> Muh Rudi Nugroho, "Tren Transaksi Digital Meningkat, Apa Dampaknya?," *Universitas Islam Sunan Kalijaga*, 2024.

<sup>2</sup> Bank Indonesia (2023)

<sup>3</sup> Abdul Aziz, Muhammad Yazid, and Rahmat Kurnia, *Ekonomi Digital Dan Sistem Keuangan Islam*, ed. Zidny Nafi' Hasbi, 1st ed. (Yogyakarta: Jejak Pustaka, 2023).

<sup>4</sup> Nurul Inayah and Andri Soemitra, "Fiqh Muamalah Uang Dan Lembaga Keuangan: Studi Literatur," *Jurnal Ilmiah Ekonomi Islam* 8, no. 3 (2022): 2966–76, <https://doi.org/10.29040/jiei.v8i3.6777>.

<sup>5</sup> Irma Andriyaningtyas, Muhammad Adam, and Sri Herianingrum, "Penerimaan E-Wallet Syariah Linkaja Dalam Rangka Pengembangan Ekonomi Digital Di Indonesia," *EKUITAS (Jurnal Ekonomi Dan Keuangan)* 5, no. 4 (2022): 535–52, <https://doi.org/10.24034/j25485024.y2021.v5.i4.4772>.

Research conducted by Narasati (2020) has demonstrated that financial technology serves to reduce the number of rules and requirements that must be fulfilled in financial transactions, such as the need for agreements and obligations between producers and customers. The application of this concept within a traditional context is logical. However, sharia, by its very nature, continues to promote agreements and direct interaction between producers and consumers. The purpose of both elements is to prevent fraud and loss to either party. Nevertheless, these two factors are undergoing changes as we face the future. In its fatwa, the National Standards Council of the Indonesian Ulema Council states that producers and consumers are not obligated to fulfill the requirements of a direct contract. In this case, the contract can be replaced with an electronic document if it meets the standards of fairness, reasonableness, and balance in accordance with sharia.<sup>6</sup>

A more thorough investigation into the impact of fiqh on digital financial products is imperative, particularly in light of the increasing diversification of financial institutions into sharia-compliant and non-sharia banking segments. This analysis must encompass a comprehensive evaluation of market dynamics and the demand for digital financial products, encompassing both specialized applications and widely utilized digital financial instruments. In the context of digital assets, concerns over security and consumer protection, including the risks of loss or theft, are paramount. The advent of digital banking represents a novel paradigm, offering a compelling opportunity to undertake further research on fiqh muamalah in collaboration with Bank Indonesia.

## 2 Literatur Review

The objective of this study is to ascertain the pivotal concepts underlying the relationship between fiqh and the digitalization of finance, as an independent variable, and the regulation of Bank Indonesia, as a dependent variable. The study will determine the nature of the relationship between these two variables, whether it is symmetrical, reciprocal, or functional. The literature review will address the development of financial technology (fintech) and its integration with sharia principles in the banking industry. This exploration will aim to ascertain how the fusion between contemporary banking regulations and fiqh has contributed to the evolution of the banking sector. A seminal study by Nur Fazri Tsakila et al. (2024) on the development of fintech in Indonesia concluded that financial technology has transformed the banking industry landscape by enhancing operational efficiency and diversifying service offerings, thereby expanding profitability. However, this shift also poses a significant challenge, as it threatens the market share of conventional banks.<sup>7</sup>

Secondly, Diener and Špaček's (2021) research posits that the implementation of digitalization is predominantly influenced by constrained resources and technological infrastructure, which impede the adoption of digital technology in small banks. This indicates a correlation between barriers to digitalization (independent variable) and the

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<sup>6</sup> Narasati (2020)

<sup>7</sup> Nur Fazri Tsakila et al., "Analisis Dampak Fintech Terhadap Kinerja Dan Inovasi Perbankan Di Era Ekonomi Digital," *Indonesian Journal of Law and Justice* 1, no. 4 (June 25, 2024): 11, <https://doi.org/10.47134/ijlj.v1i4.2787>.

successful implementation of digital transformation in banking (dependent variable), with a focus on internal and external challenges that hinder the process.<sup>8</sup>

Thirdly, research conducted by Wadesango and Magaya (2020) in the article "The Impact of Digital Banking Services on Performance of Commercial Banks" concluded that there is a significant relationship between digital banking services and bank performance as measured by Return on Assets (ROA). This indicates a robust positive association between online customer deposits (OCD) and ROA, and a notable positive association between online banking transactions (OBT) and ROA. Conversely, fees and commissions (F&C) and internet banking expenditure (IBE) exhibit a negative correlation with ROA.<sup>9</sup>

Fourthly, research by Fahad Zeya et al. (2023) concluded that the insurance sector in Bangladesh faces a number of challenges in adopting digital technology, mainly related to inadequate regulation, resistance to internal change, and the need to develop online platforms that can meet customer expectations. This research offers a comprehensive database of barriers to digitalization in the insurance sector, particularly concerning employee perceptions of technology and policies that necessitate adjustment to facilitate digital transformation.<sup>10</sup>

The core concepts that emerge from the literature review include several key aspects of the relationship between fiqh, financial digitalization, and banking regulation. The advent of financial digitalisation, encompassing fintech and digital banking, has profoundly transformed the financial services landscape, enhancing efficiency and profitability. However, this evolution has concomitantly presented challenges to the prevailing banking system.

Banking regulations serve to control the impact of digitalization in the financial sector, thereby maintaining the stability and transparency of the banking system. The challenges of digitalization such as limited infrastructure, inadequate regulatory capacity, and resistance to change continue to hinder the application of financial technology. Bank performance can be used as an indicator of successful digital transformation. Various impacts of online transactions and digital banking fees, as well as Return on Assets (ROA), can be measured. Three types of correlational relationships can be identified.

The findings of the present study demonstrate that Bank Indonesia's regulations are directly influenced by the advancements in financial digitalization, thereby necessitating a continuous adaptation and formulation of novel policies on the part of regulators. The study conducted by Wadesango & Magaya (2020) revealed a substantial impact of digital banking on bank performance, which, in turn, also exerts an influence on BI regulation. Concurrent financial digitalization and BI regulation, devoid of a

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<sup>8</sup> Florian Diener and Miroslav Špaček, "Digital Transformation in Banking: A Managerial Perspective on Barriers to Change," *Sustainability* 13, no. 4 (February 13, 2021): 2032, <https://doi.org/10.3390/su13042032>.

<sup>9</sup> N. Wadesango, "The Impact of Digital Banking Services on Performance of Commercial Banks," *Journal of Management Information and Decision Sciences* 23, no. 23 (2020).

<sup>10</sup> Fahad Zeya et al., "Digital Transformation Adoption in the Insurance Sector of Bangladesh: A Quantitative Study from the Perspective of Insurer," in *2023 4th IEEE Global Conference for Advancement in Technology (GCAT)* (IEEE, 2023), 1–5, <https://doi.org/10.1109/GCAT59970.2023.10353267>.

direct cause-and-effect relationship, gives rise to symmetrical relationships. For instance, the research by Diener & Špaček (2021) demonstrates that the adoption of digitalisation is contingent on the presence of adequate infrastructure and resources, while regulation functions primarily as a supervisory entity, not as the primary catalyst for digitalisation. The reciprocal relationship delineates a two-way interaction, wherein BI regulations can impede or expedite the progression of financial digitalisation, and vice versa, fintech advancements can necessitate regulatory adaptations. This dynamic relationship is further elaborated in the study by Fahad Zeya et al. (2023), which underscores the pivotal role of adequate regulation in facilitating the digital transformation of the financial sector.

The analysis indicates that fiqh and financial digitalisation function as independent variables, while Bank Indonesia's regulations serve as dependent variables. The predominant relationship between these two variables is a functional and reciprocal one, whereby digitalisation has the capacity to influence regulation, and conversely, regulation can determine the direction of digitalisation development. It is imperative for regulatory frameworks to strike a balance between the pursuit of innovation and the necessity of preserving financial stability, while adhering to the tenets of jurisprudence in shari'ah banking. A meticulous approach is essential to ensure that financial digitalisation can flourish without compromising the principles of Islamic law or the stability of the banking sector in its entirety.

### **3 Research Method**

This research employs a qualitative approach, meticulously designed to analyze the intricate relationship between fiqh frameworks and digital finance. By adopting an interdisciplinary approach, this research endeavors to establish a nexus between classical fiqh principles and contemporary digital finance challenges. This research utilizes the interpretative method to explore and comprehend the interrelationship between fiqh and digital finance within the context of Bank Indonesia Regulation No. 24/7/PBI/2022 concerning sharia value-linked swap transactions. The analysis employs triangulation of data analysis techniques, integrating theories and data sources to understand how fiqh contributes to navigating Bank Indonesia regulations in the digital era. The study focuses on the correlational relationship between the dependent variables, namely fiqh and digitalisation in the banking industry, as independent variables, and Bank Indonesia Regulation on Hedging Swap Regulation (PBI 24/7/2022) as the dependent variable. The primary objective of this research is to develop a fiqh modeling framework that can assist banking legal products in aligning financial digitalization issues with Islamic values.

### **4 Result and Discussion**

Bank Indonesia Regulation No. 24/7/PBI/2022 on Sharia Hedging Swap Transactions aims to support the stability of the rupiah exchange rate through the management of exchange rate risk, while taking into account Sharia principles. This is achieved by utilizing the *al-tahawwuth al-murakkab* contract, which combines Spot and Forward Agreement transactions. This transaction is conducted with underlying assets related to

tangible economic activities and does not involve instruments prohibited by sharia law, such as crypto assets or securities that do not support productive activities. The application of fatwa and shariah-compliant statements serves as a reference to ensure compliance with shariah principles. This regulation introduces stricter provisions related to underlying transactions, which must be valid and documented with final documents, in contrast to the previous PBI, which did not regulate these aspects. It is anticipated that these transactions will contribute to the expansion of the Islamic financial market in Indonesia, despite the presence of challenges such as a limited understanding and supportive market infrastructure. The implementation of these changes, in conjunction with rigorous supervision and administrative sanctions for violations, has the potential to enhance market integrity, improve liquidity, and boost efficiency in the Islamic financial market in Indonesia.<sup>11</sup>

The application of sharia principles in the domains of finance and banking is of paramount importance within the context of the Islamic finance industry.<sup>12</sup> A comprehensive review of muamalah fiqh elucidates that this transaction prioritizes justice and avoids elements of *gharar* (uncertainty) and *maysir* (gambling), in accordance with sharia principles. The agreement in use ensures that both parties are bound by a clear and fair transaction, avoiding excessive speculation. In the context of sharia transactions in the foreign exchange market, Bank Indonesia Regulation No. 24/7/PBI/2022 covering sharia hedging swap transactions explains that transactions can be conducted through third parties as long as they are not contrary to sharia principles. To illustrate, a swap hedging transaction executed by an Islamic bank employing the *al-tahawwuth al-murakkab* contract, wherein spot and forward agreement transactions are conducted in tandem, may be facilitated by a third party as a mediator, provided that the activity is in accordance with sharia principles. An illustration of the practical implementation of this principle can be seen in a transaction involving an Islamic bank that engages in hedging against the volatility of the rupiah exchange rate to support specific economic activities, such as export-import, which are recorded in the current account.<sup>13</sup>

With regard to the mechanism, the employment of a third party as an intermediary can facilitate the seamless execution of transactions, while ensuring that all activities are grounded in legitimate economic practices and do not contravene sharia principles, such as the prohibition of usury or *gharar*.<sup>14</sup> Bank Indonesia also exercises oversight

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<sup>11</sup> “Peraturan Bank Indonesia Nomor 24/7/PBI/2022 Tentang Transaksi Swap Lindung Nilai Syariah Kepada Bank Indonesia,” Pub. L. No. Lembaran Negara Republik Indonesia Tahun 2022 Nomor 34/Bi (2022).

<sup>12</sup> Risdayani Risdayani, Muhammad Harsya Bachtar, and Ahyarudin Ahyarudin, “Comparative Analysis of the Hiwalah Fatwa between Indonesia and Malaysia,” *Indonesian Journal of Islamic Economic Law* 1, no. 2 (June 30, 2024): 153–67, <https://doi.org/10.23917/ijael.v1i2.5507>.

<sup>13</sup> Asyraf Wajdi Dusuki, “Shari’ah Parameters on the Islamic Foreign Exchange Swap as a Hedging Mechanism in Islamic Finance,” *ISRA International Journal of Islamic Finance* 1, no. 1 (December 1, 2009): 77–99, <https://doi.org/10.55188/ijif.v1i1.66>.

<sup>14</sup> I Isman and Ahmad Zainul Muttaqin, “Innovative Legal Modeling for Interdisciplinary Studies on Law and Economic Behavior,” *Indonesian Journal of Islamic Economic Law* 1, no. 1 (2023): 60–71, <https://doi.org/10.23917/ijael.v1i1.3437>.

over these transactions to ensure their compliance with sharia principles through supervisory measures and applicable regulations.

A comparison between Bank Indonesia Regulation No. 24/7/PBI/2022 on Islamic hedging transactions and the previous regulation, PBI No. 18/2/PBI/2016, reveals significant discrepancies. Specifically, PBI 2022 incorporates the *al-tahawwuth al-murakkab* contract, a combination of Spot and Forward Agreement transactions, which is more complex compared to the previous regulation that exclusively regulated hedging transactions with simpler instruments. The latest regulation introduces more stringent provisions on ‘Underlying Transactions’, which are required to be related to legitimate economic activities and must not contravene Sharia principles. It also stipulates the types of documents that must be finalized, which were not listed in PBI 2016.

These amendments are designed to stimulate the growth of the Indonesian Islamic financial market by introducing instruments that are characterized by enhanced transparency and strict adherence to sharia principles. These changes are expected to enhance market liquidity and efficiency. Moreover, the implementation of more stringent oversight and administrative penalties for any violations can also contribute to the reinforcement of market integrity, while concurrently mitigating the risk of rupiah exchange rate volatility through the use of more structured and secure Islamic instruments.

The *al-tahawwuth al-murakkab* contract, as outlined in Bank Indonesia Regulation No. 24/7/PBI/2022, assumes a pivotal role in this context, serving as a foundational element in the broader framework of research pertaining to the regulation and digitalization of Islamic finance. By integrating Spot and Forward Agreement transactions, this contract facilitates a sophisticated sharia hedging mechanism, thereby ensuring the stability of the rupiah exchange rate without contravening sharia principles, such as the prohibition of *gharar* and *maysir*. A review of the fiqh indicates that this contract emphasizes clarity and fairness in financial transactions,<sup>15</sup> which is consistent with the findings of Nur Fazri Tsakila et al. (2024) that fintech has increased the efficiency of Islamic banking. However, as Diener & Špaček (2021) found, infrastructure limitations still pose a challenge in the application of financial technology, including in Shariah-based hedging transactions.<sup>16</sup>

From a correlational relationship perspective, the application of the *al-tahawwuth al-murakkab* contract in PBI 24/7/2022 demonstrates a reciprocal relationship between financial digitalization and regulation, as explained by Wadesango & Magaya (2020). Digital banking exerts a direct impact on bank performance and consequently affects regulatory policies. In the context of Islamic swaps, this regulation ensures that

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<sup>15</sup> Nor Fahimah Mohd Razif, Shamsiah Mohamad, and Noor Naemah Abdul Rahman, “Permissibility of Hedging in Islamic Finance,” *Middle East Journal of Scientific Research* 12, no. 2 (2012): 155–59, <https://doi.org/10.5829/idosi.mejsr.2012.12.2.1679>; Zeynelabidin Hayat, “وبدائلها الشرعية (Forward - Swap) عقود الصرف الآجلة وعقود مبادلة العملات,” *Cumhuriyet İlahiyat Dergisi* 25, no. 3 (December 15, 2021): 1381–99, <https://doi.org/10.18505/cuid.886152>.

<sup>16</sup> Tsakila et al., “Analisis Dampak Fintech Terhadap Kinerja Dan Inovasi Perbankan Di Era Ekonomi Digital”; Diener and Špaček, “Digital Transformation in Banking: A Managerial Perspective on Barriers to Change.”

transactions are conducted with legitimate underlying assets, thereby reducing the risk of excessive speculation and encouraging the strengthening of Islamic financial market infrastructure.<sup>17</sup> Fahad Zeya et al. (2023) also highlighted regulatory barriers in digital transformation, which are relevant to the challenges in the implementation of PBI 24/7/2022, especially in the aspects of supervision and compliance with sharia principles.<sup>18</sup>

This regulatory framework is designed to adapt to the evolving landscape of Islamic financial digitalization, while maintaining a balance between fostering innovation and ensuring financial system stability. The interplay between BI regulation and financial digitalization is evident, as the former influences and is influenced by the development of Islamic financial instruments. The implementation of *al-tahawwuth al-murakkab* contracts in Islamic hedging transactions has been shown to enhance transparency and liquidity in Islamic financial markets, thereby addressing the challenges posed by digitalization. This regulatory framework is expected to bolster the strength of Indonesia's Islamic financial system, while ensuring the adherence to Sharia law principles in digitized banking operations.

The application of the *al-tahawwuth al-murakkab* contract in PBI 24/7/2022 is particularly noteworthy insofar as it serves to affirm sharia principles in hedging swap transactions by avoiding *gharar* and *maysir*. However, extant research on financial digitalisation has demonstrated that the development of financial technology tends to increase banking efficiency and profitability, but also creates regulatory challenges.<sup>19</sup> In this context, the *al-tahawwuth al-murakkab* contract used in PBI 24/7/2022 could be regarded as a sophisticated instrument that could impede the adoption of financial digitalisation, particularly for Islamic banks with limited technological infrastructure and comprehension of more advanced financial instruments.

A correlational review of extant literature suggests the existence of a functional and reciprocal relationship between BI regulation and financial digitalisation. However, the implementation of stricter regulations, such as those adopted in PBI 24/7/2022, may result in a deceleration of digital innovation in Islamic banking. This assertion is supported by Zeya et al. (2023), who observed similar regulatory barriers in the insurance sector. Conversely, the dynamic nature of fintech may necessitate ongoing adaptation of BI regulations to maintain relevance in the digital landscape. This suggests that the complexity of the *al-tahawwuth al-murakkab* contract in this PBI could impede Islamic banks' ability to adopt more agile and efficient digital innovations.

Furthermore, while the contracts in this PBI aim to enhance transparency and ensure transactions adhere to Shariah principles, prior research (Tsakila et al., 2024) underscores that digitalisation may jeopardise the survival of conventional banking institutions.<sup>20</sup> Consequently, regulations that depend on intricate contracts such as *al-*

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<sup>17</sup> Wadesango, "The Impact of Digital Banking Services on Performance of Commercial Banks."

<sup>18</sup> Zeya et al., "Digital Transformation Adoption in the Insurance Sector of Bangladesh: A Quantitative Study from the Perspective of Insurer."

<sup>19</sup> Tsakila et al., "Analisis Dampak Fintech Terhadap Kinerja Dan Inovasi Perbankan Di Era Ekonomi Digital."

<sup>20</sup> Tsakila et al.

*tahawwuth al-murakkab* may potentially diminish the competitiveness of Islamic banks when confronted with more agile digital financial entities. This underscores the necessity for PBI 24/7/2022 to achieve a balance between Shariah compliance and the need for flexibility in the face of digital transformation, thereby ensuring the preservation of Shariah principles and the stability of the financial system.

The source triangulation method is utilised to demonstrate the contribution of this contract in the context of increasingly intricate regulations, which are designed to preserve the stability of the rupiah exchange rate without the utilisation of instruments that are prohibited in Islam. In accordance with the observations of Bulut (2024), the utilisation of a clearinghouse mechanism in Islamic derivative instruments has the potential to eliminate the element of uncertainty that constitutes the basis of the prohibition stipulated in classical fiqh. This, in turn, can support the compatibility between contemporary regulations and Islamic principles.<sup>21</sup>

The study conducted by Zeya et al. (2023) underscored that stringent regulations can impede the pace of digital innovation, while fintech is undergoing constant evolution, compelling regulators to adapt their regulatory frameworks. These regulations demand transactions with legitimate and final documented underlying, which improves sharia compliance, but can also hinder the flexibility of Islamic banking in adopting financial technologies.<sup>22</sup> This is in line with Diener & Špaček (2021) study, which highlights infrastructure limitations as a significant challenge in the implementation of Islamic finance digitalisation, including in sharia-based hedging transactions.<sup>23</sup>

From an Islamic legal perspective, the *al-tahawwuth al-murakkab* contract in this regulation plays a role in maintaining a balance between financial system stability and digital innovation. However, a study by Ahmad et al. (2022) shows that the application of *tawarruq* contracts in Islamic financial instruments often poses challenges, such as the potential for abuse for speculative gains. Consequently, BI regulations have been devised to address this issue by ensuring that swap transactions are conducted with legitimate underlying assets, thereby reducing excessive speculation. However, the complexity of these contracts also poses a risk in terms of slowing down the adoption of digital innovations in Islamic banking, potentially reducing its competitiveness against more flexible digital financial institutions.<sup>24</sup>

It is generally acknowledged that the primary challenge in implementing Bank Indonesia Regulation No. 24/7/PBI/2022 on Islamic hedging swap transactions is the incompatibility between the principles of muamalah jurisprudence and the advancement of financial digitalisation. The *al-tahawwuth al-murakkab* agreement,

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<sup>21</sup> Erkam Hasim Bulut, "Clearinghouses as Modern Tools to Ensure Compatibility with Islamic Principles," *Manchester Journal of Transnational Islamic Law* 20, no. 1 (2024): 122–45, <https://www.electronicpublications.org/stuff/1048>.

<sup>22</sup> Zeya et al., "Digital Transformation Adoption in the Insurance Sector of Bangladesh: A Quantitative Study from the Perspective of Insurer."

<sup>23</sup> Diener and Špaček, "Digital Transformation in Banking: A Managerial Perspective on Barriers to Change."

<sup>24</sup> Azlin Alisa Ahmad, Mohd Hafiz Mohd Dasar, and Nik Abdul Rahim Nik Abdul Ghani, "Analysis of Tawarruq Contract in the Islamic Profit Rate Swap (IPRS) Implementation in Malaysia," *Qualitative Research in Financial Markets* 14, no. 3 (May 19, 2022): 395–412, <https://doi.org/10.1108/QRFM-01-2021-0007>.

utilised within the purview of this regulation, endeavours to ensure compliance with sharia principles by circumventing the elements of *gharar* and *maysir*. However, the intricacies inherent within this agreement have the potential to impede the integration of digital advancements within the Islamic banking sector.

These regulations mandate the presence of a valid and finalised underlying asset in transactions, enhancing transparency but concomitantly imposing an administrative burden and reducing flexibility in digital financial transactions. From a digitisation perspective, fintech and transaction automation necessitate faster and more efficient mechanisms, while the strict regulatory framework can impede the adoption of new technologies by Islamic banks. Limited infrastructure and market understanding of more complex Islamic financial instruments further compound the challenges in implementing this regulation.

Bank Indonesia Regulation No. 24/7/PBI/2022 on Islamic hedging swap transactions places greater emphasis on the integrity of the Islamic financial market, yet it is comparatively deficient in achieving an equilibrium between sharia compliance and the necessity for flexibility and efficiency within the highly dynamic digital financial ecosystem.

## 5 Conclusion

As a result of the preceding discourse, it can be deduced that the navigation of fiqh with the phenomenon of digital finance in Bank Indonesia Regulation No. 24/7/PBI/2022 employs *akad al-tahawwuth al-murakkab*. The conceptual implications of this application are twofold. Firstly, it confirms the balance between the principles of muamalah fiqh and the needs of Islamic financial system stability. Secondly, it highlights the complexity of the contract, which can slow down the adoption of digital innovation in Islamic banking. The practical implications of this regulation are twofold. Firstly, it increases transparency by requiring transactions to have legitimate underlying assets and finalised documentation. However, it also adds an administrative burden for Islamic banks in dealing with the dynamics of digital finance. An aspect found in the data but not the main focus of this research is the role of fintech in improving the efficiency of Islamic hedging. Further research is needed to understand how technology integration can accelerate the implementation of this regulation without compromising compliance with sharia principles.

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