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## SHARIA ECONOMIC PERSPECTIVE ON ONLINE LOANS AMONG MILLENNIALS

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### Abstract

Online loans have become a significant phenomenon among millennials, especially in today's digital era. In the perspective of Islamic economics, online loans are an interesting topic for analysis. First, we will examine aspects of sharia compliance in online loan transactions. In Islamic economics, there are principles such as the prohibition of usury (interest) and gharar (uncertainty) that must be considered. In the context of online loans, it will be analyzed whether the loan mechanism and fees applied are in accordance with these principles. Second, we will look at the social and economic impact of online loans on millennials.

Many millennials are experiencing financial difficulties and are using online loans as a quick solution. However, unwise use of online loans can have negative impacts, such as being trapped in a debt cycle that is difficult to overcome. In an Islamic economic perspective, it will be evaluated whether online loans provide long-term benefits for millennials and society as a whole. Third, alternative options will be discussed in an Islamic economic perspective that can be a solution for millennials in managing their finances. Concepts such as profit-sharing financing, term savings (mudarabah), and risk-sharing financial systems (takaful) will be studied as alternatives that are more in line with Islamic economic principles.

**Keywords:** Financial alternatives; Social and Economic Impacts; Sharia Economics; Sharia Compliance; Millennials; Online Loans;

### Introduction

Financial technology or commonly abbreviated as fintech according to Mar'atushsholihah & Karyani (2021) is an innovation that tends to be disruptive. Success in terms of shifting markets that previously existed and were known among the public, by presenting a new technology that provides convenience and practicality in conducting a transaction. Meanwhile, according to Salvasani & Kholil (2020), financial technology is a new development in the financial sector, which is capable of changing business patterns to become more modern and efficient with the help of technology.

The existence of fintech which increasingly exists and is known by the public is growing so that then fintech based on sharia principles emerges. Sharia fintech is a combination of previously known inventions in the field of finance and technology that provide convenience in accessing a transaction, accompanied by values that adhere to sharia values (Setiani et al., 2020). In essence, conventional fintech and sharia fintech are the same, the difference is only in the source of law and also the implementation mechanism, in sharia fintech there is a Sharia Supervisory Board) as the supervisor and guarantor of sharia fintech services carrying out sharia principles as they should. The presence of sharia fintech in Indonesia should be appreciated, because it is considered to be an answer to the needs of the people in Indonesia, whose religion is predominantly Muslim, to avoid practices that are prohibited in muamalah. This will also provide opportunities for the advancement of business and the Muslim economy (Aslikhah, 2021).

According to Hsueh (2017) in Nurcholidah & Harsono (2021), financial technology has 3 types, namely: (1) Third-party payment system, a payment system through a 3rd party. An example is a mobile payment system. (2) Peer to peer lending is a platform that functions as a liaison vessel between lenders and loan recipients, through technological assistance. (3) Crowdfunding, is a type of financing in which more than one lender can or jointly raise funds to fund 1 borrower.

However, of the many fintech services offered, the one that most exists today is peer to peer lending services, or online loans. This online loan is the most popular among people in Indonesia. Online lending itself is a financial service provider service, where lending of funds occurs without a face-to-face meeting, but only through an application or certain services by uploading all the required documents, then waiting for confirmation that there are funds that can be disbursed (Agung Abdullah, 2021). Meanwhile, sharia online lending is a service that provides a platform to connect or unite people who need financing with the lender, with the aim of carrying out a financing contract that is bridged by a technology and system (Baihaqi, 2018).

Sharia online loans are permissible in Islam, as long as they comply with the provisions of the applicable sharia principles. These principles have been regulated in a fatwa issued by the National Sharia Council-Indonesian Ulema Council Number 117/DSN-MUI/II/2018 concerning Information Technology-Based Financing Services based on Sharia Principles. Based on report data released by OJK until May 2022, funds that have been distributed to fintech lending services based on age groups amount to 34.053 billion. The sharia economic perspective emphasizes sharia principles in economic activities, such as fairness, openness and transparency. In the context of online loans among millennials, this perspective refers to the same principles in running an online loan business.

In the Islamic economy, loans are given on the principle of risk sharing between the lender and the loan recipient. Lenders must provide loans by taking into account the needs and ability of the loan recipient to repay the loan. In addition, loans must be provided with clear guarantees and do not violate sharia principles.

However, in practice, online loans among millennials often violate these principles. Many online loan services offer loans with high interest rates and are not transparent. This can cause the loan recipient to be trapped in a debt cycle that is difficult to get out of.

Therefore, the Islamic economic perspective emphasizes the importance of strong regulations to ensure that online lending services among millennials operate in accordance with sharia principles. In addition, consumers must also be wiser in choosing online loan services that comply with sharia principles and pay attention to their ability to repay loans.

The Islamic economic perspective on online lending among millennials involves an evaluation of sharia compliance in the online lending mechanism and the resulting social and economic impacts. The following are a number of points that reflect an Islamic economic perspective on online loans among millennials:

1. Prohibition of Riba: In Islamic economics, riba (interest) is considered unethical and forbidden. Therefore, the Islamic economic perspective expects an online loan mechanism that does not involve usury. This principle encourages the development of alternatives such as profit-sharing financing that is more equitable and in accordance with Islamic economic principles.
2. Gharar and Transparency: The principle of gharar, which refers to uncertainty and ambiguity in transactions, is also considered in the Islamic economic perspective on online loans. It is important for online loans to offer adequate transparency, by providing clear information about the fees, terms and risks involved in the transaction.
3. Social and Economic Impacts: The Islamic economic perspective pays attention to the social and economic impacts of online loans among millennials. Unwise use of online loans can lead to dependence on debt and it is difficult to get out of the debt cycle. Therefore, it is important to evaluate whether online loans provide long-term benefits for millennials and society as a whole.
4. Financial Alternatives: The Islamic economic perspective encourages the development of financial alternatives that comply with Islamic principles. Concepts such as profit-sharing financing, term savings (mudarabah), and risk-sharing financial systems (takaful) can be solutions that are more in line with Islamic economic principles to help millennials manage their finances in a sustainable manner.

## Methods

This research uses a qualitative approach with descriptive methods to describe general description of the use of online loans among millennials and the sharia economic perspective on use of online loans.

## Results and Discussions

Research has been conducted to examine the use of online loan services among millennials from an Islamic economic perspective. Some interesting findings from the research are as follows:

1. The high level of online loan requests from millennials is due to an urgent need that must be met.
2. In the perspective of Islamic economics, online loan companies that operate must ensure clarity and transparency of information to customers regarding loan fees and terms.
3. The use of interest or usury in the Islamic economy is prohibited, so online loan companies must find alternatives to generate their profits, such as charging higher administrative fees.
4. Millennials must consider their needs carefully before deciding to borrow money, because in the Islamic economy it is recommended to minimize the use of debt.
5. In the context of the Islamic economy, alternative funding options such as savings or investments can be considered as a better option than online loans.
6. Financial Sustainability: Research has revealed that online loans that comply with Islamic economic principles can provide more inclusive financial access for millennials. This can help them overcome financial difficulties and improve their financial stability in the long term.
7. Borrower Behavior: Studies have also highlighted borrower behavior in using online loans. Several studies have shown that millennials tend to use online loans to meet consumption needs or fund excessive lifestyles, which can lead to being trapped in a debt cycle that is difficult to overcome. However, other research shows that with good financial education, millennials can use online loans wisely and effectively.

8. Sharia Compliance: Several studies have looked at aspects of Sharia compliance in online loans among millennials. This involves assessing the mechanics of the loan, the fees charged, and the fairness of risk sharing between the lender and the borrower. The results of this study can provide insight into the extent to which online loans comply with Islamic economic principles.
9. Financial Alternatives: In addition, several studies have also tested the effectiveness of financial alternatives that are in accordance with Islamic economic principles, such as profit-sharing financing, term savings (mudarabah), and risk-sharing financial systems (takaful), as solutions which is more suitable for millennials in managing their finances.
10. Thus, the results of research in an Islamic economic perspective on online loans among millennials provide a deeper understanding of the implications of this practice, as well as provide guidance in developing online loan services that are more in line with Islamic economic principles and provide long-term benefits for millennials.

The results of research on the Islamic Economic Perspective of Online Loans among millennials show several interesting findings. In this context, online loans have experienced rapid growth and are becoming popular among millennials. Technological developments and changes in consumer behavior have encouraged the adoption of online loans as a practical and fast alternative in meeting financial needs.

From an Islamic economic perspective, online loans present several issues that need attention. One of the main issues is compliance with sharia principles in online lending practices. This includes legal, ethical and transparency aspects that must be considered by online lenders and borrowers. In this context, it is important to ensure that online loans do not violate sharia principles, such as *riba* (interest) and *gharar* (uncertainty).

In addition, research also highlights the social and economic impacts of online loans that are in line with sharia principles. Online loans can provide more inclusive financial access for millennials who previously had difficulty getting access to formal financial services. This can help them address urgent needs and expand economic opportunities. However, it is important to ensure that online loans do not create excessive financial burdens or create dependence on debt.

In the context of online lending behavior among millennials, research has found that motivation and needs are the main factors in using online loans. Other factors such as financial management skills, level of financial literacy, and awareness of sharia principles also influence their decision to use online loans.

### **Conclusions and Recommendations**

In conclusion, research on Islamic Economic Perspectives on Online Loans among millennials provides important insights in exploring the impacts and implications of online loans in the Islamic context. In developing the online lending industry, it is important to pay attention to compliance with sharia principles, strengthen financial literacy, and educate millennials about responsible financial management.

Based on the results of research that has been conducted regarding the Islamic economic perspective on online loans among millennials, it can be concluded that the use of online loan services needs to be considered carefully in the context of the Islamic economy. Several things that need to be considered include clarity and disclosure of information from online loan companies regarding loan fees and terms, avoiding the use of interest or usury in economic transactions, and careful financial management.

Millennials need to consider their needs carefully before deciding to borrow money through an online loan service. Alternative funding such as savings or investments need to be considered as a better option than online loans in the context of the Islamic economy. This can help avoid unwanted risks and help manage finances more prudently.

In the context of the Islamic economy, online loan companies also need to ensure clarity and transparency of information, and find alternatives to generate their profits without using interest or usury. In this case, an understanding of Islamic economic principles can help online loan companies to build good relationships with customers and build trust among the wider community.

Based on the results of the research and conclusions previously described, there are several suggestions that can be given regarding the use of online loan services among millennials in an Islamic economic perspective. Some of these suggestions are:

1. Understanding of Islamic economic principles needs to be improved, both for customers and online loan companies. Understanding these principles will assist in selecting appropriate funding options and minimizing unwanted risks.
2. Online loan companies need to ensure clarity and transparency of information regarding loan fees and terms for customers. This is important to avoid getting stuck in debt that is difficult to pay off and to ensure good relationships with customers.
3. Millennials need to consider funding alternatives that are more in line with Islamic economic principles such as savings or investments. This can help minimize risks and help manage finances more prudently.
4. Customers need to consider carefully before deciding to borrow money through an online loan service. This needs to be done by considering the urgent needs, the ability to pay off debts, and the principles of Islamic economics.

5. The government needs to increase supervision of online loan companies to ensure their compliance with Islamic economic principles and protect customers from unwanted risks.

By implementing the suggestions above, it is hoped that the use of online loan services among millennials can be carried out more carefully and minimize unwanted risks.

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