

E-wallet Transaction Framework in Malaysia: An Evaluation of Potential Shariah Issues

Rafisah Mat Radzi¹, Wan Nurliza W. Ramli², Lilik Rahmawati³ and Deasy Tantriana⁴

Abstract

The finance industry's rapid growth and technological advances have led to the emergence of e-wallets, an electronic payment method for goods or services without cash. So far in the Islamic finance industry, the use of e-wallets is still in its initial stages, and there is currently no guideline or regulation that governs its transactions. Therefore, this study aims to evaluate potential Shariah issues related to e-wallet transactions as practiced in Malaysia. A qualitative method was employed through content analysis, focusing on Touch 'n Go, GrabPay, and Boost as case studies. The findings highlight crucial Shariah issues surrounding e-wallet application by non-bank issuers, issues of trust account and credit card, and the granting of rewards in the e-wallet, including the transaction for a non-compliance item. The findings contribute significantly to policymakers in formulating Shariah parameter for e-wallet transactions, providing assurance to Muslim users and encouraging them to embrace electronic payment technology with confidence.

Keywords: E-Wallet, E-Money, Shariah (Islamic Law), Rewards, Non-Compliance Item

INTRODUCTION

The evolution of social interaction and business has resulted in money being transformed from its original conventional and physical nature and functions to advanced electronic formats. As a result of recent and rapid technological advances, money has been digitalized and converted into electronic currency. Electronic money, or e-money, is perceived not only as an electronic platform for payments and banking instruments but is also evolving into a commercial phenomenon in the modern economic environment, including e-wallet that has emerged as a revolutionary payment system in the business world. The financial system worldwide is facing serious challenges, as mobile networking and communication infrastructure continue to develop, going beyond the Islamization process of conventional finance. From the Islamic point of view, money should be observed as first, a medium of exchange and second, a standard of measurement. Following such transformation of money, its function as a store of value is arguably questionable. Those Islamic scholars who rejected the later function of money did so purely due to the prohibition of excessive speculation that potentially may cause harm to society (Omar, Kareem, Ismail, & Lahsasna, 2012). In light of this dynamic landscape, it is important to analyze how *Shariah* issues may impact the transactional framework of an e-wallet.

In Malaysia, the majority of financial technology (or fintech) activity has been concentrated in the e-wallet and payments space. This accounts for almost 19% of the fintech industry, issued by 6 banks and 48 non-banking providers (Bank Negara Malaysia, 2020b). The recent COVID-19 pandemic has changed greatly the modes of payment, resulting in more than 80% growth of e-wallet usage, as limited movement pushes cashless payments among Malaysians in the past years (The Malaysian Reserve, 2021). While this escalation seems appealing for e-wallets, there is no guideline or regulation that governs 'Islamic e-wallets' and their related transactions (W.Ramli, Halimi, Ismail, & Othman, 2021). Given that e-wallet adoption is still in its infancy in Malaysia, it would, therefore, be better for relevant authorities to look into these concerns and address them urgently (Naim

¹ School of Distance Education Universiti Sains Malaysia 11800 Penang Malaysia. E-mail: rafisah@usm.my, +604 653 2314, <https://orcid.org/0000-0002-7471-1513>

² Manager, Shariah Research, Governance and Training, Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) Tingkat 24, Menara 1, Menara Kembar Bank Rakyat No. 33, Jalan Rakyat, KL Sentral 50470 Kuala Lumpur E-mail: wan.nurliza@bankrakyat.com, DL: 03-2612 6517

³ Fakultas Ekonomi dan Bisnis Islam, UIN Sunan Ampel, JL. A. Yani 117 Surabaya, Jemur Wonosari, Kec. Wonocolo, Surabaya, Jawa Timur 60237 Indonesia E-mail: lilikrahmawati@uinsa.ac.id, <https://orcid.org/0000-0001-9046-0411>

⁴ Fakultas Ekonomi dan Bisnis Islam, UIN Sunan Ampel, JL. A. Yani 117 Surabaya, Jemur Wonosari, Kec. Wonocolo, Surabaya, Jawa Timur 60237 Indonesia E-mail: deasy@uinsa.ac.id

et al., 2023). This can provide assurance to Muslim users, encouraging them to adopt new payment technology with confidence. The identified gaps and issues, to a certain extent, call for an e-wallet transactional structure that complies with *Shariah*, guiding issuers to offer these in-demand services. These issues serve as motivation for this study, aiming to evaluate the potential *Shariah*-related concerns in e-wallet transactions as practiced in the market. The insights gained will be valuable input for developing a framework that addresses these considerations.

The paper is organized as follows: Following this introduction, the paper will, in order, explain the methodology employed by this study. Then, *Shariah* rulings following the changes of money as a medium of transactions from physical money, paper money, e-money to e-wallet will be discussed.

In the next section the common framework of the modus operandi of e-wallets, including *Shariah* issues, will be further explained, followed by a conclusion of the main themes covered here.

METHODOLOGY

This study employed a qualitative method to reveal *Shariah* issues related to the operational framework of e-wallet transactions. The study sample includes three e-wallet applications in Malaysia, specifically Touch 'n Go, GrabPay, and Boost, chosen as case studies. With 53 e-wallet brands in the market, these three were selected as case studies due to their popularity among Malaysians (Celcom, 2021). Data analysis was carried out using the deductive method, considering the perspectives of both past and contemporary Islamic scholars, including guidelines provided by Bank Negara Malaysia and other relevant institutions.

Shariah Ruling: From Money, Paper Money, E-Money To E-Wallets

Throughout the centuries, Islamic scholars have debated money matters, and in fact, a variety of opinions exist on such issues. Without a religious hierarchy throughout much of the faith, along with the allowance for *ijtihad* (personal interpretation), several schools of thought have emerged within the Islamic tradition, each with its own interpretations of law and finance. In order to examine *Shariah* issues pertaining to e-wallet transactions, it would be useful to begin by looking at the concept of money in early Islamic history and its *Shariah* ruling, before substantial discussions on e-wallets and *Shariah* issues were made.

In the early Islamic era, gold and silver coins were primarily used as a medium of exchange. During the time of the Prophet Muhammad (pbuh) in Mecca, in the late 500s and early 600s, common forms of money included raw materials, as well as coins from the Byzantine and Sassanid empires

(Adam 2021), which continued until the establishment of the first Islamic state in Madina (Shah & Bukhari, 2020). The dinar, made of gold, was the currency from the Persian (Sassanid) empire, while the dirham, made of silver, was the currency of the Byzantine Empire. Both currencies used a weight-based measurement system, since the system was deemed the most important way of measuring the value of money rather than counting, to avoid the possibility of fraud in fineness and valuation, because it was foreign currency (Shah & Bukhari, 2020). Additionally, coins would suffer wear and tear over time, causing them to lose weight (Adam, 2017). The Prophet Muhammad (pbuh) certified the use of the existing currency without any change, maintaining the same weights and currency minting. This situation continued until the time of Caliph Abu Bakr (ruled 632-634) and during some years of Caliph Umar al-Khattab (ruled 634-644).

These coins were initially used like ingots or raw gold, without considering them as minted currency, until Abdul Malik bin Marwan, the first caliph in Islamic history, formally minted gold and silver coins in 76 AH, called al-Dinar Al-Islami and Al-Dirham Al-Islami. During the Mamluk dynasty (872-922 A.H/1468-1517 CE), *fulūs* (copper coins or currency made of bronze) came into existence for use in small commercial transactions. Their purchasing power was limited and catered to common daily needs for inexpensive goods and services (Shukori & Borhan, 2018). Therefore, according to early Islamic jurists, money was considered only in the form of gold and silver at this stage, and *Shariah* rulings related to money were not applied to mediums of exchange other than gold and silver. The idea of gold and silver as money has not been heavily contested in general, or specifically in Islamic history. In fact, prominent scholar such as Al Ghazali, viewed these precious metals as money which God specifically created to be used (Adam 2017). When the use of *fulūs* became common and

they were used in most transactions, Islamic jurists also deemed them to be money and applied all *Shariah* rulings related to money to these *fulus* (Shah & Bukhari, 2020).

For many centuries, only gold and silver were used as money in Islamic countries. According to

Pamuk (2004) it was not until the 19th century when the Ottoman government first adopted bimetallism and moved towards the monetary gold standard system, following the lead of other governments around the world. In 1863, the Islamic Ottoman Empire issued paper money convertible to gold, with the Imperial Ottoman Bank granted the authority to issue gold-backed banknotes and guarantee their convertibility. *Shariah* scholars have varied opinions regarding the *Shariah* compliance of paper money. The first perspective in Islamic jurisprudence considers paper money *Shariah*-compliant since its convertibility is approved by the monetary authority. The second perspective views it as a debt on the issuing bank, i.e., the central bank, making it illegal for selling or purchasing. The third perspective perceives paper money as a weak substitute adopted by the monetary authority, as it has virtually no commodity value. The fourth perspective sees it as a trade item but cannot be categorized among the six tangible items mentioned in the Prophet Hadeeth narrated by Ubida Ibn al-Samit. It is because this special class of item differs from other trade commodities (Krichene & Ghassan, 2019b).

The classical discussions on the validity of money underwent a radical shift with the widespread introduction of paper money. As early as the nineteenth century, it was commonly believed that paper money represented gold reserves with a central regulatory authority. However, in the twentieth century, this viewpoint became less convincing as it no longer reflected reality. The final blow to the gold-backed system came in the UK in 1931 and in the USA in the 1970s with the collapse of the Bretton Woods agreement, officially detaching the gold-backed currency system from the global monetary framework. Consequently, using gold and silver as currency poses challenges when paper money is widely accepted by the market as a medium of exchange and valuation (Sifat & Mohamad, 2018). Currently, no country in the world issues a currency backed by or based on gold and/or silver. Paper money, better known as "banknotes," is generally accepted by the public and can be used to purchase goods, functioning as currency in general.

The Muslim community has accepted the use of banknotes based on a series of *Shariah* rulings. The first International Islamic Economic Conference held in 1976 resolved to establish an Islamic economic system but maintained the stance of using fiat money or banknotes as a medium of exchange—though not explicitly stated verbatim (Olorogun & Aziz, 2021). The *Fiqh* Academy of Makkah, founded in the early 1980s, evaluated the 1976 decision of Muslim intellectuals from Islamic jurisprudential perspectives. They found that banknotes have replaced gold and silver money in all attributes and form, specifically the intrinsic nature of the gold monetary system (*Fiqh* Academy Resolution 1985-1988)⁵. The same matters continued to be discussed by the *Fiqh* Academy affiliated with the OIC in its two subsequent sessions held in 1987 and another fifth session held in 1988. Resolution No. (9) D/3/07/86 stated that banknotes were considered currency since they shared all attributes of currency and constituted valid units of pricing. All legal rules on gold and silver applied to them regarding interest, zakat, etc. (*Fiqh* Academy OIC Resolution 1987-1988). Similarly, the *Fiqh* Academy of India, founded in 1989, concluded that fiat money, i.e., banknotes, had substituted gold and silver in all ways. These three juristic institutions concluded that all Islamic legal rulings on gold and silver are automatically transferred and applied to banknotes (*Fiqh* Academy India Resolution, 1989-2004). Nevertheless, as of now, the preeminence of gold and silver as *Shariah* money is still debatable among contemporary Muslim scholars (see Krichene & Ghassan, 2019a; Olorogun & Aziz, 2021), which is beyond the scope of this paper.

The evolution of money as a medium of transaction has progressed over time, sparking discussions among Islamic scholars on the subject throughout the centuries. Concerning paper money, it has undergone several phases of development, starting as a letter of declaration in lieu of money or an acknowledgment of debt (bank

⁵ The *Fiqh* Academy of Makkah decided Resolution No D2/7- 1406 in 1985 which concluded that banknotes were considered independent currency units and for all intents and purposes governed by the same rules as gold and silver currencies which made obligatory alms (zakat) obligatory on them. Both types of usury, namely, usury of excess (*riba al-fadl*) and/or credit usury (*riba al-nasi'a*) were considered prohibited because the effective cause of the unit of price (*thamaniyyah*) was present in them as in gold and silver analogous to banknotes.

money), based on the value of gold. It then evolved into a medium for payment transactions and eventually replaced gold and silver money altogether

(Yaacob, 2014). *Shariah* rules have similarly adapted to these changes. The rapid advances in technology have further driven the evolution of the payment system, transitioning from paper money to electronic money, commonly referred to as e-money. Consequently, the introduction of e-wallets has become a prominent aspect of the financial landscape. The adoption of these technologies has sparked debates among Islamic scholars to ensure that the *maqasid* (objectives) of *Shariah* are preserved. This demand for permissibility and compliance with Islamic principles in the realm of electronic transactions and e-wallet usage as practiced in the market needs to be discussed.

E-WALLET: DEFINITION AND COMMON FRAMEWORK OF MODUS OPERANDI

The terms e-money and e-wallet are often used interchangeably in the literature due to their similarities as digitalized payment systems (Aji, Berakon, & Riza, 2021). From a regulatory perspective, Bank Negara Malaysia refers to 'electronic money' or 'e-money' as any payment instrument or Islamic payment instrument, whether tangible or intangible, that electronically stores funds in exchange for funds paid to the issuer. It can be utilized as a means of making payment to any person other than the issuer (Bank Negara Malaysia, 2022p.4). While the Central Bank of Indonesia defines e-money as a payment instrument issued based on the value topped up by the provider and stored electronically in a server or chip. The value of electronic money managed by an issuer does not constitute savings as specified in banking law. However, the given definition is general and lacks specific details regarding the differences between e-money and e-wallet, making it challenging for e-money/e-wallet service providers to have a comprehensive reference.

Referring to e-money and e-wallet practices in the Malaysian economy, the Touch 'n Go application provides a significant example illustrating the slight operational differences between e-money and e-wallet. The service provider, Touch 'n Go Sdn Bhd, has issued the Touch 'n Go card as one form of e-money and subsequently introduced an e-wallet application called Touch 'n Go e-wallet. In this context, e-money serves as an alternative to physical cash, functioning as an electronic store of value. It can take the form of a card or an e-wallet, serving as a medium of payment to both e-money and non-money issuers. E-money appears as a digital number inside an e-wallet. Conversely, an e-wallet operates as an electronic wallet existing in the form of a smartphone application that stores various payment instruments, including but not limited to e-money, credit cards, or debit cards. It records all types of transactions made, and money needs to be deposited into the e-wallet online before being converted and stored in the form of e-money, enabling various payment transactions. Users can initiate transactions by scanning the Quick Response (QR) code or by touching the card on the Paywave card payment terminal at the payment counter. In the Malaysian context, only e-wallet providers issuing e-money that can be used with multiple merchants (technically known as "open-loop") require an e-money license from the Bank Negara Malaysia. Therefore, based on this definition, an e-wallet is also considered part of the e-money system, with the implementation of Malaysian e-wallet subject to Bank Negara rules.

Both e-money and e-wallet also differ in the way they store users' data. For instance, in the Indonesian setting, examples include Tap Cash (by Bank BNI), Flazz (by Bank BCA), e-Money (by Bank Mandiri), and Brizzi (by Bank BRI). In the context of e-money, the nominal value topped up by users is stored in a chip. This chip-based electronic money is typically owned by banks. On the other hand, for e-wallets, the nominal value topped up by users is stored in a server. It is a server-based e-money owned by the operator. Examples include T-Cash, which has been rebranded as LinkAja (operated by Telkomsel), Go-Pay (operated by Go-Jek), and OVO (operated by Lippo Group).

There are various types of e-wallets with different business models being utilized. The specific features and capabilities of an e-wallet can vary significantly depending on the providers, structure, target audience, and the types of assets it supports. Therefore, for the discourse on the e-wallet framework for transactions, Touch 'n Go, GrabPay, and Boost have been referenced as examples prevalent in the market. It is important to note that the comparison of frameworks is done solely for research purposes and does not consider their competitive advantages in providing services and privileges. In summary, this framework model involves users, e-commerce platforms, and merchants, each with distinct roles and functions.

The process of an e-wallet transaction begins when users enter the e-commerce platform by installing the software on their device and providing the necessary information. A purse (e-wallet) payment becomes possible when users open a virtual account in the application and deposit a certain amount of money into it. To enable e-wallets for payment transactions, options to add money to the e-wallet are provided by Touch 'n Go, GrabPay, and Boost, allowing the use of e-money, debit cards, or credit cards. In the e-money setting, users deposit a certain amount of money into the e-wallet online, which is then converted and stored in the form of e-money, facilitating various payment transactions. In this case, the value of e-money in the e-wallet is equivalent to the actual value of the deposited money. Conversely, for e-wallets based on credit and debit cards, users are not required to deposit funds into the e-wallet. When making a transaction, the payment source is the user's debit card or credit card.

The e-commerce platform, a software facilitating the commercial process of buying and selling over the internet, is structured and managed by e-wallet service providers or operators. These providers can be either banks or non-bank institutions that function as service facilitators through a 'purse' for the purpose of payment. In the case of Touch'n Go, it is backed by Alipay, GrabPay is supported by Grab, and Boost is backed by Axiata Group—all of which are non-bank service providers. These entities open access to the platform for users and merchants and provide an online payment system directly linked to the user's bank account.

To maintain user engagement, these platforms go beyond payment transaction services by incorporating various marketing strategies and offering self-service sales. For example, the uniqueness of Touch 'n Go e-wallet lies in providing convenience for transportation, such as paying tolls, parking fees, and transit costs. Additionally, a money-back guarantee is offered, providing a full refund within five working days if the e-wallet is charged erroneously. GrabPay e-wallet leverages the Grab system for ride-hailing and food orders, allowing users to earn Grab Rewards points with every transaction. As for Boost e-wallet, it is accepted at any UnionPay QR merchants and offers a rewards cashback program.

Small and medium-sized enterprise (SME) business owners, individual traders, or person-to-person (P2P) sellers can register as merchants via the application offered by service providers. These merchants are required to have an account at a virtual point of sale for payment purposes and ensure that point of sale and marketing materials are placed as designated. In essence, the e-wallet service providers generate revenue through the Merchant Discount Rate (MDR). In the case of Touch 'n Go, GrabPay, and Boost, the charges to merchants range from 0 to 2 percent based on contractual agreements, as these providers facilitate settlements on behalf of customers to the merchants.

Shariah Issues Surrounding E-Wallet Transactions

The adoption of e-wallets has led to an increased demand for e-money, facilitating e-payments and the conduct of e-business. However, contentious *Shariah* discussions persist on the *Shariah* compliance of e-money, extending to the e-wallet itself. Notably, Islamic scholars such as Muhammad Ridwan Firdaus (2018) and Mansur, 2015 cited in Shamsuddin, Sitiris, and Yunus (2022) assert that e-money is in accordance with *Shariah*, considering it a new form of conventional money. In contrast, al-'Aqābī (2008) argues that e-money should not be classified as money but rather as a means of payment, emphasizing the user's right to make payments to the issuer. Considering Islamic e-wallets are still in their embryonic stage and the industry is still grappling with the inadequacy of legal frameworks for Islamic fintech, at least three ambiguities surrounding the issue of *Shariah* compliance in the e-wallets transaction arise. First, there is uncertainty concerning the management of depositing of funds into e-wallets (Nor et al., 2021; W.Ramli et al., 2021). Second, concerns arise regarding benefits in the form of rewards within service provider marketing strategies (Latif & Ahmad, 2022). Third and lastly, there is a debate on the utilization of e-wallets to transact with *Shariah* non-compliant merchants (Aseh, 2020; W.Ramli et al., 2021).

Depositing Funds Into E-Wallets: The Issues of Trust Accounts and Credit Cards

Noted earlier, users should add funds to their e-wallets through money transfer via e-money or by linking them to their bank accounts, credit cards, or debit cards. This enables the e-wallets to function for payment transactions. While e-wallet providers may be offered by both bank and non-bank institutions in the Malaysian

context, numerous *Shariah* concerns arise for the latter, given that the former are regulated by Bank Negara Malaysia. E-money operators are considered *Shariah*-compliant after obtaining licenses approved by Bank Negara Malaysia, in accordance with the provisions of Section 28(1) and (2) of the Islamic Financial Services Act (IFSA) 2013, as follows, respectively:

28. (1) An institution shall at all times ensure that its aims and operations, business, affairs and activities are in compliance with *Shariah*.

(2) For the purposes of this Act, a compliance with any ruling of the *Shariah* Advisory Council in respect of any particular aim and operation, business, affair or activity shall be deemed to be a compliance with *Shariah* in respect of that aims and operations, business, affair or activity.

This resolution reveals that it extends beyond e-money applications and also encompasses e-wallet transactions. Since the IFSA 2013 was purposely developed as the framework for *Shariah* governance for Islamic Finance Institutions in Malaysia, the controlling aspects of the statute are restricted merely to such institutions. While conventional non-bank e-wallet service providers are not subject to Bank Negara Malaysia's supervision, as such e-wallet transactions that comply with *Shariah* are open for execution (Wan Rumaizi cited in W.Ramli et al., 2021pp.47-48).

It is worth noting here that not all e-wallet service providers will issue e-money, and not all e-money issuers will offer e-wallets. Therefore, without such control, contemporary Islamic scholars have doubts about the *Shariah* compliance of e-money deposited into an account called a third party or trust account by non-bank issuers.

For Malaysia, the accumulated funds from e-money shall be kept in a trust account/deposit in a licensed financial institution. This account is bound by the Trustee Act 1949, wherein the funds in the trust account can only be used for the return to users and payment to merchants. Any revenue earned from the investment of the trust account shall only be used for item 10.2 (b), Guidelines of E-Money, unless the funds are in excess of the total outstanding e-money liabilities. The operator of the e-money is prohibited from paying interest or profit on the e-money balance or anything else that could add to the monetary value of the e-money, as stated in Item 10.2 (b), Guidelines of E-Money. However, the current guideline does not specifically state a requirement that a particular trust account should be opened at an Islamic financial institution. The Guidelines also do not document that the issuer, especially non-bank issuers, should create a separate account to consolidate deposits received from Muslim users.

Without such requirements, concerns regarding *Shariah* issues arise concerning the place where money is deposited and how it is managed (Mohamad, 2019). The user's e-money savings are not explicitly stated to be deposited in both Islamic or conventional financial institutions, and the management process is not outlined. The issue of non-*Shariah* compliance persists if kept in a conventional account, as many such accounts engage in investments that do not comply with *Shariah* principles. In the context of Touch 'n Go, GrabPay, and Boost, the management of such accounts remains unclear, and indeed, the majority of operators have utilized conventional trust accounts as part of their operations (Nor et al., 2021).

In the meantime, adding e-money to an e-wallet using a conventional credit card could have *Shariah* implications, as this action involves a loan (*qard*) issue that is strictly concerned with Islam (Noor & Yusoff, 2022). In fact, the concept of the Islamic credit card has received considerable attention from *Shariah* scholars for a long time, with differing opinions about its inherent nature and characteristics and what makes its returns permissible from the *Shariah* point of view. Any increment outside sale, lease, and sharing relationships may be in violation of Islamic law (Kahf & Mohamed, 2016). Generally, contemporary *Shariah* scholars have adopted two broad stances: some scholars consider it permissible if certain conditions are fulfilled, while others deem conventional cards as not permissible due to the issue of interest (*riba*). Those who consider the usage of credit cards as permissible in *Shariah* lay down two conditions that should be strictly adhered to: firstly, paying off the full outstanding balance within the grace period, and secondly, avoiding any cash withdrawals and any actions that trigger the interest clause. The Council of the Islamic *Fiqh* Academy of the organization of Islamic Conference, after debating and researching on the issue, in its Twelfth Session (Resolution No. 108, 2/12 on "Credit Cards") held in 2000, resolved that the conventional credit card is not permissible in Islam if its conditions include imposition of interest payment, even if the intention of the cardholder is to repay within the

moratorium period that precedes imposition of interest. However, the OIC *Fiqh* Academy also explained that it is permissible in *Shariah* to issue credit cards that do not carry a condition of imposing interest on the debt.

When adding money to Touch 'n Go, GrabPay, and Boost e-wallets, the issuers have provided users with the option to use credit cards, without specifying terms and conditions regarding whether users can reload from Islamic or conventional credit cards. When an individual uses a credit card to add e-money to their e-wallet account, they incur a debt with the credit card issuer (bank) until the user repays the amount. Some scholars argue that this case is subject to the legal maxim "every loan entailing benefit is usury," meaning any benefits derived from this loan should be prohibited as it is considered usury (*riba*). In the case of the user as a debtor or credit card holder, with the issuer of the credit card also being the issuer of e-money and e-wallet service providers, the customer uses a credit card to add e-money, and the bank deducts subscription fees from the amount. This implies that the amount added to the e-wallet is less than the loan amount, potentially leading to *riba al-dayn* (interest charged on loans or debts). Hence, when the use of e-wallet is done in this condition, the fees should not be deducted from the debt. Instead, it is to be charged to the user's account as a separated amount, and the amount in the e-wallet which is by credit card will not be reduced (Shamsuddin et al., 2022).

Rewards in E-Wallet

In addition to trust account and credit card issues, rewards offered in e-wallet transactions also raise doubts from the *Shariah* perspectives. In general, there are several ways e-wallet rewards work in Malaysia, particularly for Touch 'n Go, GrabPay, and Boost (Lee, 2024). First, rewards are given when users load funds into their e-wallets. Second, rewards are offered when users spend with partnered merchants. Third, users receive rewards depending on their respective e-wallets, and fourth, rewards can be used to redeem vouchers or freebies. Among the mentioned benefits, the first situation, which involves rewards given when users deposit funds into their e-wallet accounts, could raise *Shariah* concerns, considering the Islamic-based contract used in depositing funds into an e-wallet account is a *qard* contract (Latif & Ahmad, 2022). The idea of saving money inside an e-wallet uses the *qard* concept because the e-wallet operator borrows the money to be invested. Therefore, the e-wallet is subject to laws related to *qard*. Any loan involving payments with *riba* or gifts benefiting borrowers is prohibited (Naim et al., 2022).

As stipulated in the *Shariah* Advisory Council of Bank Negara Malaysia (SAC) Ruling on E-Money as a *Shariah*-Compliant Payment Instrument during the 201st Meeting and 26th Special Meeting, the e-wallet application utilizes two contracts, namely the *wakalah* (contract of agency) and *qard* contract. A *wakalah* contract occurs when an e-wallet depositor makes a purchase or sale order, representing the e-wallet issuer in a transaction, while a *qard* contract occurs when an e-wallet depositor deposits money into an e-wallet account. The guidelines further stipulate that the approved issuer may offer rewards for various reasons, such as upon subscription to their service, topping up the balance, or utilizing e-money to make payments to merchants. Since the funds received from the user may be construed as *qard* from the user to the approved issuer, it raises the question of whether the practice of offering rewards contravenes *Shariah* principles that prohibit any benefits accruing to the lender (*qard jarra nafan*). The SAC ruled that there is no issue of *qard jarra nafan* in the practice of rewards offered by the approved issuer based on the following considerations:

The *qard* contract is only a supplementary contract, distinct from the loan contract for deposit accounts offered by banking institutions.

There is no inter-conditionality between the funds placed by the user and rewards given by the approved issuer.

The rewards are neither intended nor targeted to reward the amount placed by the user but rather as a temporary marketing strategy to expand customer participation.

The Guideline expressly prohibits approved issuers from issuing e-money at a monetary value greater than the amount received.

The practice (*`urf*) in respect of the utilization of the funds by the approved issuers creates a differentiation from normal banking business, rendering the *qard* contract as a supplementary contract (Bank Negara Malaysia, 2020a).

As practice in the market, Touch 'n Go e-wallet providers require a minimum deposit of RM50 to obtain the benefit of a RM3 return voucher, with this campaign running from December 7, 2021, to December 31, 2021. New Boosters receive free 50 coins at the start of their membership, and the exact number of coins users receive per transaction depends on Boost (Jam et al., 2018). Additionally, by topping up your GrabPay e-wallet and using that money for Grab rides, food, deliveries, and other commodities, users gain points that can be exchanged for discounts, free rides, and other GrabRewards (Lee, 2024). For Touch 'n Go e-wallet, Grab Pay, and Boost e-wallet, the main *Shariah* concern arises as these service providers do not specify the type of contract used when an e-wallet depositor puts money into an e-wallet account (Noor & Yusoff, 2022). According to Ahmad and Latif (2022), the deposit in the e-wallet account is debited as a *qard*. Hence, every benefit accruing from the *qard* is a form of usury (*riba*) because of the presence of *qard jarra naf'an* elements, based on the following considerations, which do not meet the SAC's ruling as shown below:

Firstly, a marketing operational similarity occurs between the benefits offered and the *ribawi* contract concept. The operations related to depositing funds into an e-wallet account and the provision of benefits by the e-wallet issuer to the e-wallet depositor exhibit operational similarities with a *qard jarra naf'an* contract. The receipt of benefits or advantages when depositing occurs is a debt contract that has an excess of benefits compared to the original capital, resembling the concept of *riba qard*.

Secondly, the benefits are targeted at the amount deposited into the e-wallet account, wherein the benefits provided to e-wallet depositors are based on the amount deposited into the e-wallet account. In the marketing operations by Touch 'n Go, Boost, and GrabPay, the issuers target a certain amount of funds to be deposited. If no specific amount is targeted, then the e-wallet issuer will provide benefits to all those who deposit funds without setting any conditions. Therefore, the real objective of these e-wallet issuers is to encourage the participation of e-wallet depositors by providing benefits, and a certain amount needs to be deposited into the e-wallet account to enjoy these benefits.

Thirdly, the *Shariah* Advisory Council of Bank Negara Malaysia (SAC) has opined that there should be no connection between the funds deposited by e-wallet depositors and the benefits provided by e-wallet issuers. However, the marketing strategies employed by these issuers do not align with this opinion. Through vouchers, money coins, and discounts offered on the condition that e-wallet depositors make purchases or transactions using their e-wallet applications, the connection between the funds deposited by e-wallet depositors and the benefits provided by approved issuers becomes evident.

Fourth, concerning the *qard* contract involving the e-wallet depositor, it is deemed as only an ancillary contract according to the *Shariah* Advisory Council of Bank Negara Malaysia (SAC) and differs from the *qard* contract related to deposit accounts offered by banking institutions. Nevertheless, this point raises some contentious *Shariah* issues among contemporary Islamic scholars. Some scholars hold the view that it does not lead to the *hakam* related to the *qard* contract becoming void itself because there is no Islamic ruling indicating that the *hakam* will be void if it is an ancillary contract (Ahmad & Latif, 2022). Others argue that since these three e-wallets do not clearly state the contract underpinning their system, neither *qard* nor *wakalah*, therefore, the e-money status is viewed as *halal* but *syubbah* (doubtful). Consequently, such e-wallet applications are considered as *mubah* (neutral or permitted), which is based on the notion that everything is permissible in Islam until proven prohibited (Noor & Yusoff, 2022).

In some instances, due to intense competition, certain providers are enticing customers to use their e-wallets by offering 'lucky draws'. Users are required to pay a certain amount of money to participate in these lucky draws, and gifts are given to the winners, while the money is returned to the users if they do not win. The commitment of money in participating in such competitions is akin to gambling, thus not compliant with *Shariah* principles (Mirza, 2019). Therefore, the use of an e-wallet is considered permissible if it is solely for storing and saving money in a digital wallet. However, if the user intends to take advantage of benefits such as 'free shipping', 'top-up promo period', or discount benefits, it is deemed not permissible (Fitria, Pravasanti, & Prastiwi, 2022) especially if there is a *qard* contract underlying the application system (Naim et al., 2022). Since Islamic law is still debating the use of these kinds of benefits in wallets, there is a concern that bonuses or promotions may involve interest and *usury* (Fitria et al., 2022).

Transaction of Non-Compliance *Shariah* Items

Transactions using an e-wallet that involve non-halal goods or services, which are clearly haram from *Shariah* perspectives, can lead to issues of non-compliance with *Shariah*. As demonstrated in Table 1 below, the online transactions offered by Touch'n Go, Boost, and GrabPay also involve cigarettes, conventional insurance, gambling, and non-halal items such as pork and liquor, for which they receive MDR commission from the listed merchants. This provides evidence that the e-wallet service providers do not impose restrictions on transactions involving non-compliant *Shariah* products and services.

Table 1: Selected operators, platforms and/or companies that accept e-wallet transactions

Transaction items	Touch' n Go	Boost	GrabPay
Cigarettes:			
Lazada	√	√	-
7-Eleven	√	-	-
Conventional insurance:			
Prudential Malaysia	√	√	-
Hong Leong Assurance	√	√	√
Gibraltar BSN	√	√	-
Zurich	√	√	√
Great Eastern,	-	√	-
Gambling:			
BK8, LuckyBlock, 1xBet, Rabona, 22Bet	√	√	-
Maxim88	-	-	√
Non-halal items: pork, liquor items			
Lazada	√	√	-
Lamboplace	√	√	√

Sources: Author's compilation of merchant partners listed in the respective e-wallet operators, including other platforms that accept payment through these e-wallets, such as Lazada, LamboPlace, Online casino, and 7-Eleven related institutions.

While Islam encourages and mandates activities promoting business and industry, not all buying and selling activities of goods and services are deemed permissible from *Shariah* perspectives. There exists a consensus (*ijma'*) among jurists about the prohibition of any form of trading in inherently impure goods such as **alcohol, pigs, dogs, carcasses, and the like**. Islam forbids any business involving these unclean goods due to the potential harm and damage they can cause to society and the environment.

Religious scholars hold differing views on the permissibility of smoking; some consider it permissible, while others deem it haram. The lack of a consensus among scholars is attributed to the absence of categorical evidence declaring smoking as haram. There is no specific text or evidence in *Shariah* that explicitly forbids or condemns smoking (Haq, 2000). However, in the Malaysian context, smoking is classified as strictly forbidden. The *Fatwa* Committee of the Islamic National Council for Religious Affairs of Malaysia, or the National *Fatwa* Committee, declared smoking as illegal on March 23, 1995. Similarly, electronic cigarettes and vapes were also condemned as illegal by the National *Fatwa* Committee on December 21, 2015 (JAKIM, 2015).

Shariah prohibits elements such as uncertainty (*gharar*), gambling (*maysir*), and earning interest (*riba*). Consequently, Islamic scholars in various schools of thought unanimously agree on the prohibition of gambling. Regarding conventional insurance, the National *Fatwa* Committee, at its 80th meeting on February 1-3, 2008, discussed general insurance. The *Muzakarah* ruled that conventional insurance is not *Shariah*-compliant (JAKIM, 2015).

CONCLUSION

The analysis conducted in this research leads to the following findings. First, following the transaction framework of Touch 'n Go e-wallet, GrabPay, and Boost, non-bank service providers must keep funds in a trust account of a financial institution compliant with *Shariah*. Users should also be informed of the third party's *Shariah* compliance status. Additionally, service providers should establish terms and conditions requiring users to add money to their e-wallet through money transfer via e-money or by linking their bank account to their Islamic credit card or debit card. The service providers must also clearly disclose the types of contracts used and their implications to users.

Second, service providers must ensure that promotional activities to attract users do not involve elements of coercion or persuasion. For users, if they use the e-wallet solely for storing and saving money in a digital wallet, it is considered permissible. However, it is worth noting that Islamic law is still debating the use of facilities in digital wallets, as there is concern that bonuses or promotions may involve interest and usury. Therefore, users should avoid seeking facilities and benefits such as 'top-up promo periods' or discount benefits.

Third, based on *Shariah* solutions for transactions involving *Shariah* non-compliant items, e-wallet service providers bear the responsibility of implementing a screening process for merchant applications to ensure goods and services offered to users adhere to *Shariah*. The study suggests implementing this screening process as a Standard Operating Procedure (SOP) for risk mitigation, preventing e-wallet operators from collaborating with merchant companies that offer non-halal and non-*Shariah*-compliant goods.

Islam has always embraced new technologies, encouraging the use of intellect for the benefit of humanity. Since e-wallet adoption is still in its infancy and lacks guidelines or regulations governing "Islamic e-wallets" and related transactions, addressing potential *Shariah* issues in e-wallets is crucial. The findings reported in this paper can serve as a foundation for policymakers in formulating guidelines on the legal and *Shariah* compliance of e-wallets, providing assurance to Muslim users and encouraging confident adoption of modern payment technology.

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