

# EVALUATING CRYPTOCURRENCIES THROUGH THE LENS OF ISLAMIC FINANCE BASED ON MAQASID SHARIAH

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**ABSTRACT:** Cryptocurrencies (digital asset) have been a growing area of interest for individuals, investors, and governments worldwide. It is a currency in a digital or virtual format, without any physical representation like traditional fiat money. This Cryptocurrency is exclusively accessible through internet-connected devices such as personal computers, laptops, cell phones, and other devices. A cryptosystem that utilizes blockchain technology offers numerous benefits, including enhanced transaction security, convenience, rapidity, and cross-border applicability. However, the circulating cryptocurrencies also have certain drawbacks, such as the absence of a regulatory body and the contentious legal status in many countries. The debate surrounding the advantages and disadvantages of cryptocurrencies has become active among professionals, including professors who have studied it from an Islamic perspective. The objective of this study is to assess the compatibility of cryptocurrencies with the principles of Islamic finance based on Maqasid Shariah. From the Islamic viewpoint, money possesses distinct attributes and prerequisites, including stability and a foundation in tangible goods. Cryptocurrency may not satisfy this requirement due to concerns regarding its classification as money from an Islamic standpoint. The research methodology employed the extant literature on cryptocurrencies. The findings indicate that Cryptocurrency exhibits significant volatility and has inherent limitations in being classified as 'money' due to its restricted supply and prevalent use for speculative purposes, which is forbidden in Islam. The research suggests that Muslims might hesitate to adopt cryptocurrencies as a medium of exchange or transaction. This factor gives rise to the anticipation that the growth of cryptocurrencies will be sluggish in Muslim nations.

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**KEY WORDS:** *Cryptocurrency, Islamic Perspective, Digital Asset*

## 1. BACKGROUND & MOTIVATION

Cryptocurrencies, which are additionally referred to as digital assets, have become an innovative financial technology that is altering existing financial institutions and currencies as a result of technology's constant advancement. Currently El Salvador and the Central African Republic (CAR) have recognized cryptocurrencies as legal currency, suggesting that the country's acceptance of bitcoin as money is still relatively low. Of which, El Salvador is still the only nation

that uses cryptocurrencies as accepted forms of payment in the real world. According to CoinGecko (2023). Consequently, in the majority of the nations who have legalized it, it is regarded as a digital asset.

As this newly developed kind of digital asset becomes increasingly prevalent, it is essential to evaluate the extent to which it complies with Islamic law, more especially the Maqasid Shariah. The objectives of Islamic law, or Maqasid Shariah, offer a thorough framework to analyze the moral and legal implications of various financial products, including cryptocurrency. This literature review explores the existing research on the intersection of cryptocurrency and Maqasid Shariah to understand the potential benefits and challenges from an Islamic perspective.

Currently, the cryptocurrency framework in Malaysia lacks of clear regulations and maqasid shariah, which has created huge gap and makes it difficult for businesses and investors to operate in the cryptocurrency market with certainty and security. The absence of a comprehensive cryptocurrency framework (based on maqasid shariah) has also led to concerns about the potential risks associated with Riba (Interest) and Gharar (Uncertainty): Islamic finance principles strictly prohibit the payment or receipt of interest (riba) and transactions that involve excessive uncertainty or ambiguity (gharar). The complex nature of cryptocurrencies and the potential for speculative trading may conflict with these principles, making it challenging to determine their compliance with Shariah. Also, there is no specific guideline to deal with matters on inheritance, particularly those pertaining to digital asset management. As a result, there is a significant need for the Malaysian government to establish a clear and comprehensive framework that will provide a safe and secure environment for cryptocurrency-related activities while also protecting the interests of all stakeholders involved.

### **1.1. Overview of Cryptocurrency**

To lay the foundation for the review, it is essential to provide a comprehensive overview of cryptocurrencies. This section will delve into the technology behind cryptocurrencies, their decentralized nature, and the key features that differentiate them from traditional fiat currencies. A discussion on the rapid growth and adoption of cryptocurrencies globally will set the stage for the subsequent analysis through the lens of Maqasid Shariah. Cryptocurrency can be defined as of tokens which are intended to be used as a general or limited-purpose medium of-exchange, and which are accounted for using an often collectively-maintained digital ledger making use of cryptography to replace trust in institutions to varying extents.(Pernice et al , 2021). Most people think that Satoshi Nakamoto, the person who published the white paper on bitcoin, is the one who started cryptocurrencies, however David Chaum is the true pioneer of cryptocurrencies thanks to his idea of anonymous, bank-free digital money. Later on, he created Digicash, which needed encrypted keys to operate securely. Improving on this, Nick Szabo's 1998 Bit Gold, which resembled Bitcoin but lacked anti-double-spending measures. Finally, in 2009, Satoshi Nakamoto solved this hurdle with their Bitcoin white paper, igniting the cryptocurrency revolution.

Cryptocurrency is based on breakthrough blockchain technology, with transactions systematically recorded in a publicly distributed ledger, allowing for direct transactions between parties globally without the need for financial intermediaries. Its worth stems mostly from user trust and unique features, making

it a standalone payment system in the worldwide digital financial space. The cryptocurrency industry has grown swiftly in response to rising demand, spanning a variety of forms like as Bitcoin, Litecoin, Ethereum, Solana, and Ripple, among others, illustrating the dynamic evolution and growing popularity of digital currencies. Although it was created for replacing fiat currency as a medium of exchange in the first place, it is regarded as a new class of asset called digital asset by most governments all around the world based on its inherent current valuability and importance. New things need to be analysis based on the Shariah and Maqasid Shariah to review it permissible as Islam is a religion where it is suitable for all kinds situations and places to prevent harm to the society, as the legal maxim of Shariah "Harm must be eliminated" (N. M. Ibrahim et al, 2024).

## **1.2. Maqasid Shariah**

This section will present an overview of the Maqasid Shariah framework, emphasizing its five primary objectives: protection of faith, life, intellect, lineage, and property. Each objective will be discussed in relation to financial transactions and economic activities, highlighting the principles that need to be considered in evaluating the permissibility of any financial instrument, including cryptocurrencies. The discussion begins by exploring the theory of Maqasid Shariah, derived from the Arabic term "maqasid," signifying objectives. Shariah, meaning religion or methodology, imposes rules by Allah through Prophet Muhammad. Various contemporary scholars offer definitions, with Allal al-Fasi emphasizing the implied objective behind legal rulings, Ahmad al-Raysuni focusing on objectives for realizing benefits, and Muhammad Saad al-Yubi emphasizing meaning, wisdom, and considerations for benefiting mankind. Maqasid Shariah aims to provide goodness and benefit to humanity in both this world and the next. Maqasid Shariah can classified based on legal texts into Maqasid ammah, the goal of preserving religion, life, intellect, lineage, and wealth; Maqasid khassah, the specific aims in matters like crime, property, and family; and Maqasid juz'iyah, objectives in specific laws relating to particular issues. The overarching goal is to preserve order, facilitate life, establish human beings as caliphs on Earth, and promote good while curbing evil. In conclusion, Maqasid Shariah is not a product of mere human reason but is derived from a profound understanding of Islamic law.

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### **1.3. Cryptocurrency and Maqasid Shariah Principles**

The convergence of bitcoin and Maqasid Shariah principles presents a complicated and rapidly changing environment in the realm of Islamic fintech. Cryptocurrency, with its decentralised structure and dependence on blockchain technology, impacts traditional financial norms. Several key concepts emerge when analysing this technological advancement through the perspective of Maqasid Shariah, or Islamic law's goals. The most important consideration is the protection of religion (Hifz al-Din). Cryptocurrency's conformity with Islamic finance is dependent on its adherence to principles prohibiting usury (riba) and speculative features similar to gambling (maisir). Scholars examine the structure of cryptocurrencies to verify they adhere to Shariah-compliant financial procedures.

Second, the preservation of life (Hifz al-Nafs) is critical. Evaluating the risks connected with cryptocurrency investments and transactions is critical to ensuring that individuals are not subjected to unwarranted damage or speculative behaviors that jeopardize their financial security. The protection of intellect (Hifz al-Aql) entails addressing intellectual property concerns in the cryptocurrency space while also limiting the risk of fraud and scams. Transparency and ethical procedures in bitcoin transactions are required to comply with Shariah principles. The safeguarding of lineage (Hifz al-Nasl) includes family wealth management and inheritance preparation. The function of cryptocurrency in maintaining and distributing family assets in accordance with Shariah must be carefully considered.

Finally, property protection (Hifz al-Mal) involves determining the property rights and ownership concerns associated with cryptocurrency transactions. Smart contracts, as technology solutions, are being evaluated for their capacity to provide equitable and transparent financial transactions. As global recognition and use of cryptocurrencies grows, experts and practitioners should actively engage in continuing discussions to negotiate the complexities of these digital assets within the framework of Maqasid Shariah. Striking a balance between financial innovation and adherence to Islamic norms is a continuous problem that necessitates careful consideration and coordination among scholars, regulators, and the cryptocurrency community.

## **2. LITERATURE REVIEW**

Islamic finance is a rapidly growing sector that has been embracing financial technology (fintech) to enhance its services and products. The requirements for accepting the implementation of fintech products currently under Islamic finance are based on the principles of Islamic law (shariah). These principles require that all transactions, contracts, and related activities must be free from the elements of usury (riba), gambling (maysir), and excessive uncertainty (gharar). The dealings must also be fair and just to the contractual parties and must not bear any detrimental impact on society and the environment in line with the objectives of Islamic law (maqasid Shari'ah).

Considering the Islamic viewpoint involves evaluating the extent to which anything contributes to the achievement of Maqasid al Shariah. If a practice fails to achieve the essential purposes of Islamic law, it is said to be un-Islamic. Conversely, if a practice contributes to realizing these fundamental objectives, it is considered Islamic. Shari'ah-compliance means that a financial product or activity meets the criteria of the Shari'ah. Islamic finance is guided by the principles of the Shari'ah, which are derived from the Qur'an and the Sunnah. The primary distinguishing features in implementing Shari'ah in financial structures are that transactions must be grounded on tangible assets and not include any form of interest (riba). Shari'ah principles also forbid the presence of uncertainty (Gharar), excessive uncertainty or speculation (maysir), and gambling (Qimar). Sifat and Mohamad (2018) assert that the aims of the Shari'ah are immutable and universally applicable, regardless of the increasing significance of Islamic economics and finance in the political and economic realms during the last thirty years. (Todorof 2018) suggests that implementing FinTech in Islamic banking can enhance its competitiveness and inclusivity by expanding the range of available products and services, reducing their current costs, and bridging the credit disparity prevalent in numerous Muslim nations. Nurhisam (2017) contends that the issuance of money as a medium of exchange in a country is considered a matter safeguarded by Islamic law when examined from an Islamic legal standpoint.

According to Evans (2015), Cryptocurrency could be a more suitable form of currency in Islamic banking and finance than the central bank fiat currency supported by interest. This is particularly true in cross-border trade. (Al.Zubaidi, Alsudairy, and Alzubaidi 2017) emphasize the need for additional research in digital currencies and blockchain from a Shari'ah perspective. This research is necessary to gain a deeper understanding of the topic. However, they also acknowledge the potential for introducing a digital currency that complies with Shari'ah principles once all the concerns regarding its validity have been thoroughly examined and resolved. According to (Muedini, 2018), cryptocurrencies are well-suited for Islamic finance and can offer remedies for issues related to government-regulated currencies. Digital currencies have a set supply, unlike traditional fiat currencies, eliminating uncertainty and inflation. Kameel and Meera (2018). Critically analyze the impact of Bitcoin on Islamic finance and raise doubts about its suitability as a means of exchange by Shari'ah principles. They argue that bitcoin involves elements of gambling and uncertainty, which are prohibited in Islamic banking. Oziev and Yandiev (2018) adopt an intermediate stance by delineating the role of Cryptocurrency within the financial system by assessing its impact and comparing its attributes with traditional paper money. They ultimately assert that Cryptocurrency is acceptable, albeit subject to stringent conditions.

### **2.1. Related works**

The most related works from Wartoyo and Haerisma (2022) besides the advantages brought by cryptocurrency in modern financial systems, also arise some Sharia concerns in terms of the benefit of cryptocurrency. In current practices, people tend to treat crypto as a commodity with speculation purposes and take advantage from the movement price of cryptocurrency. In addition, cryptocurrency can potentially be used for unlawful activities. From Maqasid Shariah perspective, Wartoyo and Haerisma (2022) argue that cryptocurrency has more element of mafsadat rather than maslahah, and it is considered to fall under the element of

tahsiniyat and not dharuriyyat. Similarly, Meera (2018) opined that cryptocurrency has to be backed by real commodities such as gold in order to be classified as Sharia-compliant. By doing so, cryptocurrency can promote socio economic justice and is consistent with the principle of Maqashid Shariah. Fageh and Nur Iman (2021) opined that cryptocurrency has more elements of mafsadah than maslahah despite it offered several advantages in current economic practices. In addition, Alam and Noor (2020) analyzed Sharia perspectives on Mine and non-mined cryptocurrency, stating that cryptocurrency can fulfill the element preservation of wealth (hifz al-mal) as one of the pillars of Maqasid Shariah. The arguments from scholars who allow cryptocurrency are stronger than those who do not permit crypto. This is because the arguments not permitting cryptocurrency are mostly based on external factors, while the cryptocurrency itself does not conflict with Sharia principles.

Table 1: Comprehensive Comparison Study

Authors	Year	Title	Islamic Perspective	Key Finding
Hassan, Muneeza, and Mohammed	2023	Cryptocurrencies from Islamic perspective	Cryptocurrency, Protection of wealth	<ul style="list-style-type: none"> <li>- Cryptocurrencies do not possess all the characteristics of money according to Shariah principles</li> <li>- Scholars debate crypto classification as a medium of exchange due to concerns about volatility, intrinsic value and governance.</li> </ul>
Khan	2022	The legality of cryptocurrency from an Islamic perspective: a research note	Cryptocurrency, Protection of wealth	<p>Cryptocurrency does not qualify as Money in Islam:</p> <ol style="list-style-type: none"> <li>1) Cryptocurrency is not backed by gold or silver, and it does not have any intrinsic value.</li> <li>2) The price fluctuation in cryptocurrency is very high, which makes it speculative.</li> <li>3) Not backed by any government and hence cannot become a legal tender. It could be used for money laundering, tax evasion, and other illegal activities because of its decentralized structure. All such activities fall under deception, which is prohibited in Islam.</li> </ol>

Alam & Noor	2020	Mined and Non-Mined Crypto Currencies: A Critical Analysis from Shariah Perspective	Cryptocurrency, Maqasid Shariah (protection of wealth)	<ul style="list-style-type: none"> <li>- Analyzing crypto currency from the <i>Maqasid al-Shariah</i> point of view, the preservation and protection of wealth is one of the fundamental objectives of Shariah (<i>Maqasid al-Shariah</i>).</li> <li>- Crypto currency is permissible as it does not conflict with the Shariah principles.</li> </ul>
Wartoyo & Haerisma	(2022)	Cryptocurrency in the Perspective of Maqasid al-Shariah	Cryptocurrency, Maqasid Shariah (protection of wealth)	<ul style="list-style-type: none"> <li>- Cryptocurrency has a much greater element of <i>mafsadah</i> than <i>maslahah</i>.</li> <li>- The benefits caused by cryptocurrencies do not reach the level of <i>dharuriyat</i> or even <i>hajjiyat</i>, but are still in the stage of <i>tahsiniyat</i>, which is legal in Islam and can be implemented but only as a complement to transactions.</li> </ul>
Mohamed Aslam Akbar	(2022)	Towards an interpretation of cryptocurrency as a commodity from Maqasid al shari'ah perspective	Protection of Faith, Protection of Life, Protection of Intellect, Protection of Lineage	<ul style="list-style-type: none"> <li>- Cryptocurrencies' anti-corruption &amp; fair features align with Islamic values and Maqasid: the author praises crypto's decentralization and transparency as tools for promoting social justice and combating corrupt institutions.</li> <li>- Integration into the markets hinges on overcoming key disadvantages.</li> </ul>
Othman Sahalan & Muhammad Adib Samsudin	2022	Cryptocurrency According to The Principles of Usul Al-Fiqh: A Critical Analysis by Mohd Daud Bakar	Usul Al-Fiqh, Views from Mohd Daud Bakar	<ul style="list-style-type: none"> <li>- Cryptocurrency aligns with the Maqasid (objectives) of Islamic law in several ways, as highlighted by Mohd Daud Bakar:</li> <li>- The preservation of property (<i>hifzal-mal</i>)</li> <li>- More efficient and discreet method of surveillance and traceability due to its resistance to hacking</li> </ul>
Achmad Fageh, Aldi Khusmufa Nur Iman	2021	Cryptocurrency as Investment in Commodity Futures Trading in Indonesia; Based on Maqāṣid al-Sharī'ah Approach	Cryptocurrency, Maqasid Sharia	<ul style="list-style-type: none"> <li>- The use of cryptocurrency as a commodity</li> <li>- The weakness and challenges of cryptocurrency, which can be interpreted as <i>Mafsadah</i>, outnumber the benefits and prospects of cryptocurrency, which can be interpreted as <i>Maṣlahah</i> in Maqasid Shariah</li> </ul>

Rosele et al	2022	The Concept of Wealth (māl) in the Sharī'ah and Its Relation to Digital Assets	Protection of Faith, Protection of Life, Protection of Intellect, Protection of Lineage	<ul style="list-style-type: none"> <li>- The use of cryptocurrencies is arguably not fully in compliance with the principles of</li> <li>- Maqasid Shariah outlined in Islam considering the different fatwas of the Islamic scholars with regards to the digital currency.</li> <li>- that cryptocurrency (Bitcoin) meets most of the criteria and other requirements to consider as al-māl from the Sharī'ah viewpoint thus align with Maqasid.</li> </ul>
Mohd Ma'Sum Billah	2022	Crypto-Asset. How Does Shariah Matter?	Protection of Faith, Protection of Life, Protection of Intellect, Protection of Lineage	<p>An Islamic crypto-asset model must be entirely Shariah-compliant, not just on paper but also in practice. This means:</p> <ol style="list-style-type: none"> <li>1) Guided by Shariah principles: The model must follow established Shariah guidelines, policies, and systems.</li> <li>2) Strict Shariah oversight: A qualified board must supervise, and a Shariah audit constantly monitor all activities to ensure compliance.</li> </ol> <p>Ethical adherence: An advisory body provides guidance on upholding Islamic principles and divine ethics.</p>

The objective of this paper is to explore and access cryptocurrency from the Islamic finance (Maqasid Shariah) perspective. Maqasid Shariah or objectives of Sharia is categorized into 5 pillars priority according to Al-Ghazali (Amri & Mohammed, 2019): 1) religion (al-Din), life (al-Nafs), intellect (al-Aql), progeny (al-Nasl), and wealth (al-Mal). Based on table 1, several studies related to the discussion about cryptocurrency from the Sharia point of view are found. Most studies identify cryptocurrency from the concept of wealth or property under the Maqasid Shariah perspective. There is debate among scholars about whether cryptocurrency can be accepted by Sharia as a whole. The study conducted by Hassan, Muneeza, and Mohammed (2023) and Khan (2022) shows that cryptocurrency does not qualify as money based on Sharia due to several reasons such as price volatility, regulations, and intrinsic value. The price of cryptocurrency highly fluctuates and triggering speculation may raise Sharia concerns. Unlike traditional fiat money, which is governed by Central Banks, cryptocurrency is more decentralized and not regulated by the central authority. In addition, cryptocurrency does not have intrinsic value since it is not backed by any commodity such as gold or silver. This reason also aligns with the view from Meera (2018), whereby the findings show that any cryptocurrency not backed with real assets is against Maqasid Shariah. Similarly, Rosele et al. (2022) argue that cryptocurrency does not fulfill the objective of Sharia.

From the Maqasid Shariah perspective, Wartoyo & Haerism (2022) highlighted that cryptocurrency has more elements of mafsadah rather than maslahah, and does not reach daruriyyat and hajiyyat level. This is due to the volatility and instability of cryptocurrency as a digital currency. They argued that cryptocurrency can be categorized under tahsiniyat level, considered legal in Islam, and treated as complementary over the transactions. Similar findings also found by Fageh & Nur Iman (2022) whereby from the Maqasid Shariah perspective, cryptocurrency has both advantages, which can be interpreted as maslahah, and disadvantages, which can be interpreted as mafsadah. However, the element of mafsadah is greater than Maslahah due to the high volatility and the risk of cryptocurrency being used for illegal practices. However, studies from Sahalan and Samsudin (2022) have different results. The authors argue that cryptocurrency can be accepted from the Maqasid Shariah and does not conflict with the Sharia principles. By examining the views of Sharia scholar, Mohd Daud Bakar, the study found that even the cryptocurrency is not recognized as legal currency in the country, it still can be accepted as a whole considering the preservation of property, traceable, upholds transparency as it is resistance to hacking. In line with this, Alam and Noor (2020) highlight similar points whereby cryptocurrency can fulfill the condition of money in Islam. It serves as preservation of wealth and it is permissible under Sharia principles. Moreover, the study from Billah (2022) highlights several important issues that must fulfill by crypto-asset in order to be classified as Sharia-compliant, such as: 1) follow the existing Sharia principles, policies, and systems, 2) managed and governed by Sharia board as well as Sharia audit to ensure the compliance; and 3) adhere towards Islamic principles and ethics. Akbar (2022) argued that the nature of cryptocurrency is transparent, thus it promotes justice and prevents corruption which is against Sharia principles. It is also consistent with Islamic values whereby the use of digital asset may address environmental issue, as the paper currency and coins require a lot of trees and metal; on the other hand, the element of disadvantages must be overcome, such as the high volatility.

### **3. METHODOLOGY**

Bitcoin, Ethereum, and many other cryptocurrencies are strongly related to the financial technology (fintech) sector. These digital or virtual currencies are distributed on a public ledger (blockchain) among decentralised networks and encrypted using encryption. Cryptocurrencies may be used by criminals for illegal purposes including money laundering, financing terrorism, and many more since they are created by private businesses and are, in theory, outside the supervision of any authority (Chong, F.H.L., 2021). In Malaysia, the adoption of cryptocurrencies is still in its infancy and at a low level compared to how these currencies are received globally. The delayed adoption of cryptocurrencies by Malaysian consumers may come with a number of dangers, including "loss or theft, fraud or unauthorised usage, transaction processing issues, failure of a wallet or exchange, and poor transparency" (Unal, I.M.; Aysan, & A.F. Fintech., 2022). As a result, the government of Malaysia has developed a friendly approach to regulating cryptocurrencies. As a result, it is important to examine the strategy chosen to oversee Bitcoin and other virtual currencies (digital asset) in the nation. Since 2012 to the present has shown that the Malaysian people have not yet fully utilised the currency's enormous potential. The sluggish adoption of these cryptocurrencies

may have been caused by a number of factors, the most of which were related to concerns about consumer protection and security (Nasrul, M. A, et al, 2023).

This article employs a descriptive qualitative approach, which involves conducting a literature analysis of prior publications and searching for data sources. The data collected in this study can be appropriately documented and referenced using Mendeley by established guidelines and citations. The paper examines the perspective of Islamic teachings on Cryptocurrency. This article uses descriptive qualitative, collecting specific information by conducting literature review of reports and research paper on the many aspects of cryptocurrency based on Maqasid Shariah which encompasses a comprehensive investigation of the topic, with a particular focus on gaining deeper and holistic understanding and insights. This approach requires a thorough analysis of several primary sources. It facilitates data integration by gathering information from research with comparable end measures and combining results from various methodologies. Titles, keywords, and abstracts of papers published in electronic journal databases like Scopus, Web of Science, Science Direct, ACM, Springer, and IEEE are searched as part of the ongoing research process between June 2018 and Dec 2023. Boolean operators "AND" and "OR" were utilised to create the search strategy throughout the execution phase. To find out more about Cryptocurrency (Digital Asset) Based on Maqasid Shariah was the aim of the search phrase.

#### **4. FINDINGS AND DISCUSSION**

Cryptocurrencies are a recent innovation and so, there is a need for competent Shariah scholars to deliberate on the permissibility of this innovation as, without their opinion, it would be difficult for Muslim communities to know the legal position of using them under Islamic law. Therefore, in recent years, numerous conferences and meetings of Shariah scholars have been held in different parts of the world to determine the legal position of cryptocurrencies from the Islamic perspective. From these gatherings, it is understood that determining the legal position of using cryptocurrencies from an Islamic perspective is not a matter that is simple to decide as there is a diversity of opinion among scholars in this regard. Therefore, in recent times, numerous research studies have been published on the permissibility of cryptocurrency from an Islamic perspective, elaborating on the reasons why scholars have expressed different opinions on the matter and focusing on why it is hard for them to have a uniform opinion on the matter. Hence, the objectives of this research are to review the opinions expressed by the Shariah scholars on the permissibility of cryptocurrencies and compile the issues related to it to understand its Shariah position. This paper attempts to answer an important question: What is the Shariah position of using cryptocurrencies from a Shariah perspective? It is important to answer this question as there is divergence of opinion of Shariah scholars on the permissibility of cryptocurrencies from a Shariah perspective. Most of the Shariah scholars have viewed cryptocurrency as impermissible from the Shariah perspective. Mostly on the justification that it has no intrinsic value, thus it cannot be qualified as money. Some other justifications are that it is not backed by an asset or the government, its lack of government regulation and its volatility. Moreover, the Head of the National Ulema Council of Indonesia, Asrorun Niam Sholeh, on November 11, 2021, issued a fatwa on the impermissibility of cryptocurrencies by justifying that it has elements of Gharar (uncertainty), wagering

and harm. However, some few scholars hold the view that cryptocurrencies are permissible as money as they meet habits of exchange transactions besides other requirements such as maal (property), manfa'ah (usufruct), haqq (right), and dayn (liability). And even Shariah opinion on paying zakat on cryptocurrencies can also be seen around the world. So, we can see there are differing opinions.

The discussion about cryptocurrency is considered Sharia compliant and fulfills the element of Maqasid Shariah that has become debated among scholars. Cryptocurrency refers to a digital currency designed as a medium of exchange based on a cryptography system. The discussion about cryptocurrency, whether it can be identified as currency or money, is adequately addressed by Scholars. Cryptocurrency has to be not against the Sharia principle, such as no element of interest (riba), gambling (maysir), and uncertainty (gharar) (Alam and Noor, 2020). In order to be classified as currency, cryptocurrency has to satisfy the function of money, according to Islam. From the Sharia perspective, the protection of property or wealth is one (Hifz al-Mal) of the main elements in Maqasid Shariah. Therefore, it is necessary to look at cryptocurrency from the classification of money. Conceptually, the functions of money must be used as medium of exchange, as a unit of account, and store of value (Wartoyo and Haerisma, 2022). According to Khan (2022), three principles of things to be classified as money which are: 1) money can be any precious metal such as silver or gold or any commodity that has abundant supply and shelf life; 2) have intrinsic value; and 3) as a medium of exchange. Classification from Syahk Usmani (2005) whereby money from a Sharia point of view must fulfill these criteria such as: as a medium of exchange, store of value, and unit of account (Aliyu, et al. 2020).

#### **4.1. Cryptocurrency does not align with Maqashid Shariah**

Cryptocurrency works based on a decentralized system that has no authority to be involved. Since it works independently, cryptocurrency is not regulated by any central authority. The decentralized system allows cryptocurrency not to be controlled by a single authority or monopolized. From the Islamic point of view, this could raise regulatory concerns. Real money or currency is commonly regulated and maintained by the Central Banks to ensure the stability of the price. In addition, as the crypto works independently and depends only on the users and system, this may raise consumer protection issues due to the absence of regulation. Therefore, as the crypto has not been backed by any governance, the legality of cryptocurrency as money is still questionable. Some countries do not recognize cryptocurrency as a legal tender, such as Malaysia, Turkey, the United Kingdom, and India (Alam and Noor, 2020).

Cryptocurrency that is not backed by any asset and does not have intrinsic value may hinder the fulfillment of the characteristic of money in Islam. From the Sharia perspective, money must be based on physical form and can be used for economic activities as it is acceptable for everyone. It also possesses intrinsic value, on the other hand, cryptocurrency has only artificial value that of such value that is assigned by some hidden characters (Khan, 2020). Sharia scholars accept any form of money that is acceptable by the people, whether it is accepted by free will or recognized as legal tender based on law (Meera, 2018). Cryptocurrency is acceptable among users and may not be accepted by people who are still unrecognized or unfamiliar with cryptocurrency.

In addition, cryptocurrency has a risk of speculation. The cryptocurrency price is highly volatile, and people use it for speculation. Due to its unstable and high volatility, cryptocurrency cannot fulfill the function of storing value (Wartoyo and Haerisma, 2022). On the other hand, the value of money can be maintained and stored for a certain period of time. In addition, the nature of crypto is a digital asset, and it does not have a real physical form. This results in the value of cryptocurrency being unstable. Since it does not have an underlying asset (Kunaifi, Fawa'id, and Faujiah, 2022), the value of cryptocurrency tends to follow the market, and it depends on how much the trader expects the rest of the market to behave (Khan, 2022). The traders are coming to speculate and taking advantage of buying at a lower price and selling it at a higher price. It can be seen that cryptocurrency tends to be traded as a commodity through speculation. In the current practice, people tend to use crypto as a commodity to be traded rather than as a medium of exchange (Wartoyo and Haerisma, 2022). From a Sharia point of view, it is not allowed for the currency to be traded as a commodity since it is treated as a store of value (Amri and Mohammed, 2019). It is also against the principles of Sharia, where gambling and speculation are strictly prohibited in Sharia. Moreover, cryptocurrency can also be used for criminal acts due to the absence of authority bodies and government control in the systems, such as scams, cybercrime, and drug purchasing. Previously, the SilkRoad network operated as an online store on the dark web that sold various types of drugs and used bitcoin as a medium of payment (Wartoyo and Haerisma, 2022). It also could be used for financing terrorists, money laundering, and other unlawful activities. All these activities are against the Sharia values and principle.

#### **4.2. Cryptocurrency align with Maqashid Shariah**

Crypto currency as a digital asset is a another story in itself and it is considered as wealth (mal) where it has all the the criteria and other requirements to consider as al-māl from the Shari'ah viewpoint.(Roselle et al, 2022) Additionally,Alam and Noor (2020) stated that crypto currency is permissible as it does not conflict with the Shariah principles as long as it is refer as an asset or a commodity not a currency when we see multiple countries classify it as either commodity or digital asset. Besides ,cryptocurrency aligns with the Maqasid (objectives) of Islamic law in several ways, as highlighted by Mohd Daud Bakar which is the preservation of property (hifz al-mal) and it has more efficient and discreet method of surveillance and traceability where we can identify where it comes and goes because of the blockchain technology where it is public subsequently increasing transparency. Besides , it has strong security due to its strong cryptographic system which is resistant to hacking. (Othman et al.2022).

In addition, Akbar also sees the future of cryptocurrency as a commodity or asset rather than currency and its features align with Islamic values and Maqasid where the author praises crypto's decentralization and transparency as tools for promoting social justice and combating corrupt institutions however the integration into the market need to be chiseled out .Thus it aligns with the Maqasid in the protection of wealth. Masum billah on the other hand, argued for the creation of Islamic crypto-asset model that will be entirely Shariah-compliant, not just on paper but also in practice. This means it is guided by Shariah principles by establishing Shariah guidelines, policies, and systems with strict shariah oversight where a qualified board must supervise, and a Shariah audit that will constantly monitor all

activities to ensure compliance and strong ethical adherence. In conclusion, Cryptocurrency is aligned with Maqasid Shariah in the preservation of wealth as it is considered a *mal*, an asset or a commodity because it does not have the complete criteria for a currency.

## **5. CONCLUSION**

This study conducts a comprehensive review of the various factors of the use of Financial Technologies such as Blockchain, Cryptocurrencies in Islamic Finance. Any innovation is welcome in Islam if it does not violate basic teachings of the Quran and Sunnah. The prospect for Islamic Fintech is bright in the Islamic world and among the Muslim users of financial services as it provides opportunities for innovation and can provide financial services at affordable cost. The use of FinTech in Islamic Finance or Islamic FinTech poses a lot of challenges as well as it explores numerous opportunities. Islamic FinTech can give a boost to startups as it is transparent, accessible, and easy to use and can gain customer confidence with an ease which is very important for the startups. FinTech solutions are more cost-effective in providing financial services as compared to traditional finance and banking. Islamic FinTech will emerge as a lifeline for the Islamic Finance and Banking institution because of its cost effectiveness and the reach to the communities. Islamic FinTech can easily gain the confidence of Muslim communities as well as the non-Muslim communities primarily because of its transparency. However, along with the great opportunities comes great challenges as well, such as there is a lack of good and authentic research in Islamic FinTech, lack of trained human personnel, government, and Shariah compliance trade-offs, cyberattacks and the confidence of the investors as Islamic FinTech is still in its infancy. Regulatory framework is another important area for Islamic FinTech which must be regularized and overcome its flaws. As Islamic FinTech is still in its inception, there are several regulatory challenges such as the regulatory framework is still evolving and conflicts with some of the existing regulations. The regulatory bodies should use relaxed, liberal, and principle-based approaches in regulating the Fintech organization. As far as the Blockchain technology in Islamic FinTech is concerned, it gives a more secure and innovative way of doing business. The transactions under Blockchain are more transparent and visible to all the users. Also, Smart contracts can be a useful mechanism in all financial transactions and the monitoring and regulation process can be reduced to mere writing a smart contract. The Cryptocurrency has been a revelation and Muslim countries seriously need to have more research and must find ways to develop a cryptocurrency fully compatible with the sharia principle. As of now no Muslim country allows cryptocurrency for legal transactions.

Based on the discussion, cryptocurrency currently still raises debate among scholars and the argument of crypto whether it is acceptable from Sharia or not. Previous studies found that crypto may not be accepted as currency because it does not fulfill the characteristics of money in Islam. The lack of intrinsic value, store of value, high volatility, and not regulated by central authorities may hinder the fulfillment of cryptocurrency to comply with Sharia. Therefore, cryptocurrency cannot be accepted as a legal tender according to Sharia principles. On the other hand, cryptocurrency could also be seen as a commodity or wealth, as it fulfills the requirements of wealth, according to Sharia. The features of cryptocurrency align

with Maqasid Shariah, where it promotes social justice and prevents any corruption activities as it is transparent and decentralized. Therefore, cryptocurrency that is treated as currency does not align with Maqasid Shariah, however, cryptocurrency that is treated as a commodity or wealth is aligned with Maqasid Shariah in the preservation of wealth.

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