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Enablers and Constraints in the Growth of Islamic Crowdfunding and Peer-to-Peer Financing: Insights from Malaysian FinTech Providers

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Abstract

This study examines the enablers and constraints influencing the growth of Islamic crowdfunding and peer-to-peer (P2P) financing from the perspective of Malaysian FinTech providers. Islamic crowdfunding and P2P platforms have emerged as innovative financing mechanisms that align with Shariah principles, offering alternative capital-raising avenues for small and medium-sized enterprises (SMEs) and individual entrepreneurs. Drawing on qualitative data from in-depth interviews with selected Islamic FinTech firms, the research identifies key drivers of adoption, including technological readiness, niche market opportunities, Shariah-compliant innovation, and supportive regulatory initiatives such as the Securities Commission Malaysia's regulatory sandbox. The findings also reveal several operational and structural challenges, including regulatory complexity, limited market awareness, liquidity management issues, and high compliance costs. The study contributes to the literature by providing a supply-side understanding of the Islamic alternative financing ecosystem, highlighting how FinTech providers navigate the dual demands of technological innovation and Shariah compliance. Practical implications include the need for more targeted government support, improved public awareness campaigns, and strategic collaborations between FinTech firms, Islamic banks, and regulatory bodies. By focusing on the perspectives of platform operators rather than end users, this research offers nuanced insights into the operational realities of Islamic crowdfunding and P2P financing, thus informing policymakers, regulators, and industry stakeholders on strategies to enhance the scalability and sustainability of this sector. The findings underscore that sustainable growth requires balancing regulatory oversight with innovation incentives to position Malaysia as a global leader in Islamic FinTech.

Keywords: Islamic FinTech; Crowdfunding; Peer-to-Peer Financing; Shariah Compliance; FinTech Adoption Barriers; Malaysia

1. Introduction

The rapid evolution of financial technology (FinTech) has transformed the landscape of financial intermediation, creating innovative models that extend beyond traditional banking channels (1). Among these innovations, Islamic crowdfunding and peer-to-peer (P2P) financing have emerged as viable alternatives for mobilising capital while adhering to Shariah principles (2). These platforms facilitate funding without interest-based mechanisms, instead relying on contracts such as Mudarabah and Musharakah, which promote risk-sharing between investors and entrepreneurs (3).

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Malaysia has positioned itself as a global leader in Islamic finance by developing a regulatory environment that supports FinTech innovation, including the introduction of guidelines for equity-based crowdfunding and P2P financing by the Securities Commission Malaysia (4). This supportive framework has encouraged the growth of licensed Islamic platforms that cater to diverse market segments, from microenterprises to established SMEs (5). Nevertheless, despite the favourable policy environment, Islamic FinTech providers face multiple operational challenges, including maintaining Shariah compliance, managing credit risks, and sustaining profitability in a competitive market (6).

Existing literature on Islamic crowdfunding and P2P financing is predominantly demand-driven, focusing on adoption factors, consumer trust, and perceptions of Shariah compliance (7,8). However, supply-side perspectives, particularly those from FinTech firms, remain underexplored, even though these firms play a pivotal role in ensuring platform sustainability, expanding outreach, and safeguarding investor confidence (9). Understanding the operational strategies, regulatory navigation, and technological innovations of these firms is critical for enhancing the resilience and scalability of the Islamic alternative financing ecosystem.

This study addresses this gap by examining the experiences of Islamic FinTech firms in Malaysia, focusing on their operational realities, strategic approaches, and perceptions of the regulatory landscape. By highlighting supply-side dynamics, the findings contribute to a more holistic understanding of the factors shaping the success and challenges of Islamic crowdfunding and P2P financing providers.

2. Literature Review

The integration of FinTech innovations into the Islamic finance sector has created transformative opportunities for enhancing financial inclusion, efficiency, and accessibility (10). Islamic crowdfunding and peer-to-peer (P2P) financing, in particular, have garnered significant scholarly and industry attention due to their potential to mobilise resources while remaining compliant with Shariah principles (2). These platforms operate using profit-sharing (Mudharabah) and joint-venture (Musharakah) contracts, avoiding interest-based lending while promoting equitable risk-sharing between funders and entrepreneurs (3).

2.1. Global and Regional Growth of Islamic FinTech

The global Islamic FinTech market is experiencing rapid growth, with market value projections indicating an expansion from USD 79 billion in 2021 to USD 179 billion by 2026, driven by increased internet penetration, mobile banking adoption, and supportive regulatory frameworks (11). Southeast Asia, particularly Malaysia and Indonesia, has emerged as a hub for Islamic crowdfunding due to a robust Islamic finance ecosystem, active regulatory engagement, and a growing SME sector (5). Malaysia's Securities Commission (SC) has played a pivotal role in enabling this growth through the establishment of regulatory guidelines for equity crowdfunding and P2P financing since 2015, fostering a competitive environment for licensed platforms (4).

2.2. Supply-Side Perspectives in Islamic Crowdfunding/P2P Financing

While demand-side adoption factors, such as trust, digital literacy, and perceived Shariah compliance, are well-documented (6,9), supply-side research remains underdeveloped. FinTech firms must balance compliance with operational efficiency, investor protection, and technological innovation to maintain market competitiveness (12). The success of these platforms depends on their ability to attract both funders and SMEs while ensuring sustainable returns and adherence to ethical standards (1). Moreover, competition from conventional crowdfunding platforms intensifies the need for distinctive value propositions (13).

2.3. Challenges Faced by Islamic FinTech Firms

Key challenges for Islamic crowdfunding/P2P providers include navigating regulatory requirements, implementing effective credit risk management systems, and ensuring Shariah governance integrity (14). Some studies highlight that the relatively small market share of Islamic FinTech compared to its conventional counterpart is partly due to limited public awareness and a shortage of Islamic finance literacy (15). In addition, maintaining operational sustainability can be difficult for platforms targeting underserved markets, where default rates may be higher and funding cycles longer (16). Technological barriers, such as cybersecurity threats and scalability limitations, further complicate operations (17).

2.4. Opportunities for Growth and Innovation

Despite these challenges, opportunities for growth remain substantial. Collaboration with Islamic banks, integration of blockchain for transparency, and the development of hybrid financing models are seen as promising strategies for scaling Islamic crowdfunding operations (18). Additionally, government-backed initiatives to support SMEs and enhance digital financial literacy can directly benefit Islamic FinTech providers (19). Studies also emphasise that incorporating environmental, social, and governance (ESG) principles into crowdfunding platforms can align with both Shariah objectives and global sustainability trends, thus appealing to ethically conscious investors (20).

3. Methodology

3.1. Research Design

This study adopted a qualitative research design to explore the perspectives of Islamic FinTech firms offering crowdfunding and peer-to-peer (P2P) financing services in Malaysia. A qualitative approach was chosen because it enables an in-depth understanding of organisational strategies, challenges, and operational dynamics within their specific regulatory, technological, and socio-economic contexts (19). Semi-structured interviews were employed as the primary data collection method, providing flexibility to probe emerging themes while maintaining alignment with the study objectives (20).

3.2. Population and Sampling

The target population consisted of executives and senior managers from licensed Islamic crowdfunding and P2P financing platforms registered under the Securities Commission Malaysia. Purposive sampling was employed to select participants with direct involvement in platform operations, Shariah compliance, and strategic decision-making (2). A total of eight FinTech firms participated in the study, ensuring representation across different business models, market segments, and years of operation. This sample size is considered adequate for qualitative research aimed at thematic saturation rather than statistical generalisation (22).

3.3. Data Collection

Data were collected through online and face-to-face interviews conducted between January and March 2025. Each interview lasted between 45 and 75 minutes and was audio-recorded with participant consent. The interview protocol covered four thematic areas: business model and value proposition, operational challenges, regulatory compliance, and future growth opportunities. Open-ended questions allowed participants to elaborate on their experiences, while follow-up prompts encouraged deeper insights (23).

3.4. Data Analysis

All interviews were transcribed verbatim and analysed using thematic analysis, following Braun and Clarke's six-phase framework (24). NVivo 14 software was used to code and manage data systematically. The analysis involved initial open coding, categorisation into broader themes, and iterative refinement to ensure alignment with the research objectives. Data triangulation was achieved by comparing findings across different firms and cross-referencing with industry reports and regulatory documents (25).

3.5. Trustworthiness and Ethical Considerations

To ensure credibility, member checking was performed by sharing summarised findings with participants for verification (26). Transferability was addressed through detailed contextual descriptions, while dependability was ensured via an audit trail documenting all research decisions (27). Ethical approval was obtained from the relevant institutional review board prior to data collection, and all participants provided informed consent. Pseudonyms were used to protect participant anonymity, and data were stored securely in encrypted digital files (28).

4. Findings

The analysis of qualitative data from in-depth interviews with Islamic FinTech firms in Malaysia revealed a set of critical drivers and barriers influencing the adoption and growth of Islamic crowdfunding and peer-to-peer (P2P) financing.

4.1. Drivers

One of the most frequently cited enablers is technological readiness. Many FinTech providers have invested in advanced, secure, and user-friendly platforms capable of managing large transaction volumes and delivering seamless customer experiences. These platforms often incorporate features such as automated risk assessment, integrated payment gateways, and real-time reporting, which enhance operational efficiency and build user trust (29, 30).

Another significant driver is Shariah-compliant innovation, where firms have developed novel financing models that align with Islamic principles while meeting diverse financial needs. Examples include equity-based crowdfunding for startups, asset-backed financing for SMEs, and waqf-linked investment products. These innovations address both economic and religious considerations, appealing to faith-conscious investors who seek financial returns alongside spiritual fulfillment (31, 32).

Niche market potential further strengthens the adoption landscape. Islamic crowdfunding and P2P platforms are uniquely positioned to serve microenterprises, rural entrepreneurs, and underbanked populations who may lack access to conventional credit facilities. By leveraging digital channels, these platforms overcome geographic and bureaucratic barriers, offering more inclusive financing solutions (33).

In addition, supportive regulatory initiatives—such as the Securities Commission Malaysia’s regulatory sandbox—have facilitated experimentation and innovation by allowing firms to test products in a controlled environment with reduced compliance risks. This has encouraged market entry, fostered investor confidence, and accelerated product refinement prior to full-scale launch (17).

4.2. Barriers of Adoption

Despite these enablers, the study found persistent constraints. Regulatory complexity remains a major challenge, as firms must navigate multiple layers of compliance involving Shariah certification, financial regulations, and technological standards. This complexity is compounded by the evolving nature of digital finance laws, which can lead to uncertainty and delays in product rollouts (34).

Another barrier is limited market awareness. Although Islamic finance has gained broader recognition, many potential users—particularly SMEs and rural communities—remain unfamiliar with the operational mechanisms and benefits of Islamic crowdfunding and P2P financing. This lack of awareness limits platform adoption and investor participation (35).

Liquidity management issues also present operational hurdles. Maintaining consistent funding inflows, especially for long-term projects, is challenging for platforms that rely on retail investors whose participation may fluctuate with market conditions (36). Furthermore, high compliance costs—including legal fees, Shariah audits, cybersecurity measures, and IT infrastructure upgrades—pose financial strain, particularly for startups and smaller FinTech firms (37).

Collectively, these findings illustrate a dual dynamic: while technological capability, product innovation, and niche market positioning create a strong foundation for growth, structural and operational constraints must be addressed for Islamic FinTech to fully realize its potential in enhancing financial inclusion and economic development in Malaysia.

5. Discussion

The findings of this study align with global trends in the development of Islamic FinTech, particularly in the crowdfunding and P2P financing segments. The identification of technological readiness and Shariah compliance innovation as primary drivers mirrors experiences in markets such as Indonesia, the United Arab Emirates, and the United Kingdom, where robust digital infrastructure and Shariah-compliant product differentiation have significantly boosted adoption rates (38, 39). In these countries, platform scalability and trust in Shariah governance were found to be critical in gaining investor confidence, similar to the Malaysian context (40).

However, the Malaysian market exhibits a distinctive niche market potential, particularly in rural and SME sectors, which is less prominent in more mature Islamic FinTech ecosystems such as the UAE, where institutional and large-scale corporate financing dominate (41). This suggests that Malaysian FinTech firms can leverage their position to serve underbanked segments in alignment with national financial inclusion objectives (17).

From a business model perspective, the persistence of regulatory complexity and high operational costs indicates that firms may need to adopt hybrid strategies, combining P2P lending with strategic partnerships involving banks, government agencies, and development finance institutions (42). Such partnerships can not only ease regulatory burdens through shared compliance resources but also enhance market reach via co-branded initiatives (43).

Furthermore, the lack of market awareness highlights the need for targeted financial literacy campaigns. Global experiences from Indonesia's peer-to-peer lending market show that collaborative awareness programs involving regulators, industry associations, and academic institutions have proven effective in accelerating adoption (44). For Malaysian firms, incorporating similar initiatives could address both demand-side knowledge gaps and supply-side trust barriers.

In sum, the Malaysian Islamic FinTech landscape is at a pivotal stage where technological readiness and niche positioning offer significant growth potential, provided firms can adapt their business models to mitigate regulatory and operational challenges while investing in market education.

6. Conclusion and Recommendations

The findings of this study underscore the critical role of technological readiness, Shariah compliance innovation, and niche market positioning in driving the growth of Islamic crowdfunding and P2P financing in Malaysia. At the same time, persistent challenges such as regulatory complexity, limited market awareness, and high operational costs present significant barriers that require strategic mitigation. The Malaysian Islamic FinTech sector remains in an evolving stage, with considerable potential to expand financial inclusion and serve underbanked SMEs if both industry and policymakers address these structural constraints.

From a policy perspective, regulators could enhance clarity and consistency in guidelines to reduce compliance uncertainty. Streamlined licensing procedures, tiered regulatory frameworks, and regulatory sandboxes have proven effective in other jurisdictions, such as Bahrain and the UK, in balancing innovation with consumer protection. Furthermore, coordinated national awareness campaigns—jointly executed by regulators, industry associations, and academia—could increase public trust and literacy, thereby accelerating adoption.

From an industry perspective, Islamic FinTech firms should consider adopting hybrid business models that integrate strategic partnerships with conventional banks, microfinance institutions, and government agencies. Such collaborations can spread operational costs, improve compliance capacity, and expand customer reach. Additionally, leveraging emerging technologies such as AI-driven credit scoring and blockchain-based transaction transparency could strengthen operational efficiency and trustworthiness.

For future research, longitudinal studies are needed to track the performance and sustainability of Islamic FinTech platforms over time, particularly in assessing their social impact on financial inclusion. Comparative cross-country analyses could also provide deeper insights into best practices and policy innovations adaptable to the Malaysian context.

Compliance with ethical standards

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Disclosure of conflict of interest

No conflict of interest to be disclosed.

Statement of ethical approval

The present research work does not contain any studies performed on animals/humans subjects by any of the authors.

Statement of informed consent

Informed consent was obtained from all individual participants included in the study.

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