



ZICONS:

Zawiyah International Conference on Sharia and Legal Studies

Vol. 1. (January–December 2025): h. 511-544

<https://jurnal.pematik.id/index.php/zicons>

Sharia Compliance of Buy Now Pay Later Schemes: Analysis of Contracts and Fatwas

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Article Info

Article history:

Received Nov 17, 2025

Accepted Des 25, 2025

Publish Des 26, 2025

Keywords:

BNPL

sharia compliance

contract

AAOIFI

non-profit penalty

ABSTRACT

Buy Now Pay Later (BNPL) services are rapidly growing as an alternative to digital financing, but they pose serious challenges in terms of compliance with Islamic economic law principles. This study aims to analyse the extent to which the contract structure and key elements of BNPL services are in line with the sharia standards set by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Using a normative-comparative legal approach, this study evaluates the Terms of Service documents of several BNPL platforms in Indonesia and Malaysia. The results show that most platforms do not yet meet the basic AAOIFI requirements regarding contract clarity, ownership of goods before sale, fixed prices, and the prohibition of interest and commercial penalties. This study recommends a Sharia-compliant BNPL model based on murābahah or bai' muajjal, featuring an explicit contract structure, fixed prices, and the application of taḏwīḍ as a non-profit penalty to maintain Sharia integrity and consumer protection.

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INTRODUCTION

Buy Now Pay Later (BNPL) services have experienced rapid growth in recent years as a more flexible digital financing alternative. This scheme allows consumers to purchase goods or services now and defer payment in several interest-free instalments over a specified period. In Indonesia and Malaysia, BNPL has become a popular solution, especially among young consumers who want a quick and easy payment method without having to use a credit card. (Khan, S., et al. 2022); (Lim, W. M., et al., 2023); (Siahaan et al., 2022).

However, with the rapid growth of this service, serious concerns have arisen in the context of Islamic economic law. The main question that arises is whether the BNPL model is in accordance with sharia principles, especially in terms of the clarity of the contract, cost structure, ownership of goods, and penalty mechanisms for late payments. Many BNPL platforms do not explicitly explain the type of contract used and still apply time-based additional fees that resemble interest (*riba*), which is prohibited under Sharia law. (Rochma , et al., 2025)

This study aims to analyse the contract structure and key elements in BNPL services based on international Sharia standards set by AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions), as the main reference institution in the preparation of contracts and global Sharia financial practices. Using a normative-comparative legal approach, this study examines the Terms of Service documents of several BNPL platforms operating in Indonesia and Malaysia and evaluates their compliance with AAOIFI standards, particularly in terms of contracts, ownership, fixed prices, and non-profit penalty mechanisms. (AAOIFI, 2017)

This study is expected to contribute to strengthening digital Islamic finance practices that are not only technologically innovative but also aligned with the principles of fairness, transparency, and consumer protection within the framework of *maqāṣid al-sharī'ah*.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

BNPL is a digital financing scheme that allows consumers to purchase goods or services and pay later in instalments. In the context of sharia, BNPL is considered valid if it meets the requirements of a clear contract, real ownership by the seller, and does not contain *riba* or *gharar* (Rashid, et al., 2024) .

Sharia compliance refers to the conformity of a product, service, or transaction with the principles of Islamic law. In Islamic finance, this includes the prohibition of *riba*, *gharar*, and *maysir*, as well as the fulfilment of the pillars and conditions of a contract. This compliance serves as an indicator of the halal status and legal legitimacy of a financial service such as BNPL. (Kurniawan, et al., 2024) .

A contract is an agreement that forms the basis of a valid transaction in Islamic law. In Sharia finance, a contract must include *ijab-qabul*, a clear object, and certain conditions. For BNPL schemes, contracts such as *murābaḥah*, *bai'*

muajjal, or *ijārah muntahiyah bi tamlik* can be used with the appropriate structure (Ritonga, et al., 2025).

AAOIFI is an international institution that issues Sharia standards for Islamic financial institutions. AAOIFI standards are widely used as the main reference in determining the legality of transactions, contract structures, ownership, and risk management in financial products, including BNPL.

In Shariah, penalties for late payments are only permitted if they compensate for actual losses and cannot be a source of profit. This is called *ta'wīḍ*, and must be allocated for social purposes, not as company income. This concept distinguishes between penalties in Shariah finance and interest in the conventional system (Adam, et al., 2021).

AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions) is an international institution that sets sharia standards in Islamic financial transactions, including sales contracts such as *murabahah* and *bai' muajjal*. These standards are widely recognised by the global Islamic finance industry as the main reference in determining the legality of contracts and transaction structures.

In the context of BNPL services, AAOIFI standards stipulate that contracts must be explicit and documented, ownership of goods by the seller (BNPL provider) must be complete before the transaction is executed, and the sale price must remain fixed without any additional charges due to delayed payment. In addition, AAOIFI rejects profits from late payment penalties and only allows non-profit *ta'wīḍ* as compensation for late payments.

Based on these standards, an evaluation of BNPL practices in Indonesia and Malaysia can be conducted by identifying the extent to which platforms implement appropriate contract structures, ownership mechanisms, and fee systems. The relevant literature shows that many BNPL platforms have not fully adopted these practices, making it important to conduct an in-depth analysis of the compliance of their practices with AAOIFI principles.

Research Methodology

This study uses a normative legal approach with qualitative methods. This approach aims to analyse sharia provisions based on AAOIFI international standards related to consumer financing transactions, particularly in Buy Now Pay Later (BNPL) services. The main focus is on contract structures, ownership, pricing, and penalty mechanisms from a sharia perspective.

Data was obtained through a document study of AAOIFI standards, particularly on *murabahah* contracts, *bai' muajjal*, and provisions regarding late payment penalties. The Terms of Service documents of a number of BNPL platforms in Indonesia and Malaysia were also examined to be compared with AAOIFI standards. This comparison was used to identify gaps between actual practices and ideal Sharia provisions.

The analysis was conducted textually using a normative-comparative approach to the content of AAOIFI standards and platform practices. Validity was

maintained through the use of official sources and primary data from the platforms. The evaluation was conducted based on the principles of fairness and consumer protection in accordance with maqāṣid al-sharī'ah accommodated in AAOIFI standards.

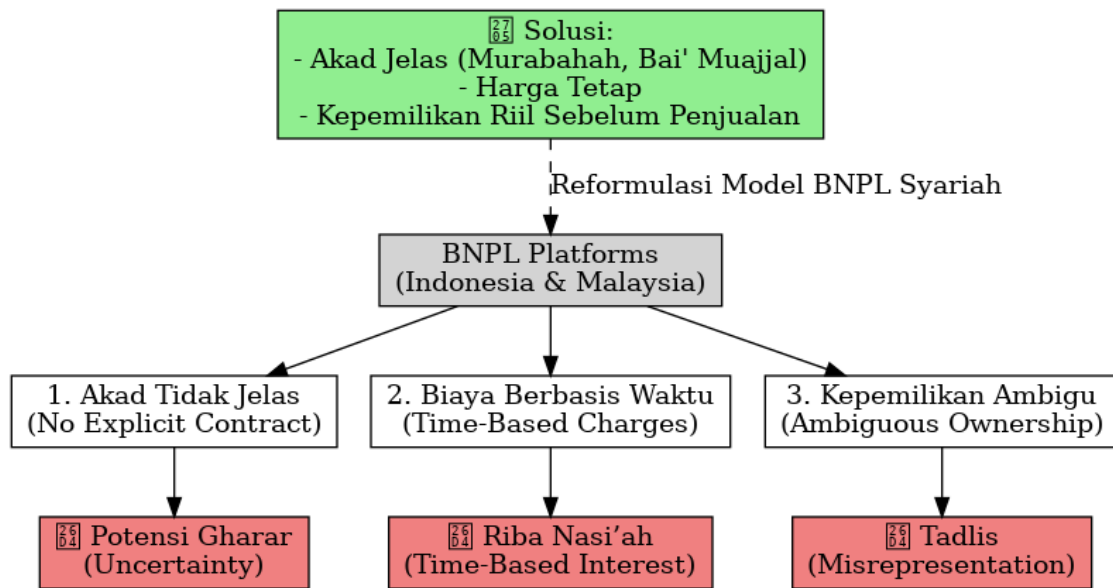
DISCUSSION

First Discussion

The findings of this study indicate that most BNPL platforms operating in Indonesia and Malaysia do not explicitly state the type of Sharia contract used in their services. This lack of clarity creates legal ambiguity in the relationship between service providers and consumers. Generally, these platforms apply a time-based fee scheme that resembles conventional consumer credit, which directly contradicts the principles of Islamic finance, particularly those related to ownership of goods, fixed prices, and the prohibition of time-based interest (*riba nasi'ah*).

For example, platforms such as Kredivo and Shopee PayLater still impose monthly interest without referring to contract structures that are valid according to Sharia, such as *murābahah* or *bai' muajjal*. This raises serious issues in the context of compliance with Sharia principles. Although BNPL offers convenience and flexibility in transactions, the contract structure used still does not meet the requirements for a valid transaction according to Islamic law.

In this context, this study emphasises the importance of transparency and clarity in the legal design of BNPL services. Without an appropriate explanation of the contract and alignment with approved Sharia models, BNPL services risk containing elements of *gharar* (uncertainty) and *tadlis* (deception), both of which are prohibited in the Sharia economy. Fulfilling requirements such as ownership of goods by the provider prior to sale, fixed pricing, and penalties directed towards social purposes are important steps towards a Sharia-compliant BNPL system.



Second Discussion

The second part of this discussion explains the empirical findings reflected in Table 1, Table 2, and Table 3.

Table 1 presents a comparative analysis of the elements of BNPL service contracts with reference to the murābahah and bai' muajjal standards according to AAOIFI. The findings show that the majority of BNPL platforms in Indonesia and Malaysia do not show evidence of ownership of goods by the service provider prior to sale to consumers, which contradicts the AAOIFI provision that the seller must legally and physically own the goods prior to the transaction. This indicates a violation of the tamlik principle, which is the basis of the legality of sales contracts in AAOIFI's version of Sharia law.

The pricing structure is also a major issue. Platforms such as Kredivo and Akulaku apply monthly interest rates of 2.6% to 3%, which clearly indicates a time-based approach contrary to the AAOIFI fatwa which requires fixed prices that cannot change over time. Although Atome Malaysia implements a fixed fee system, there are still issues regarding the transparency of contracts and ownership.

Table 2 highlights weaknesses in the Terms of Service (ToS) documents published by several platforms. Generally, these documents do not explicitly state the type of Shariah contract, do not explain when the transfer of ownership occurs, and do not clearly explain the allocation of late fees. This lack of clarity raises the potential for gharar (uncertainty) and weakens legal protection for Muslim consumers.

Table 3 presents the recommended ideal sharia BNPL transaction model. This model emphasises that service providers must first purchase goods in cash from merchants, then resell them to consumers through a murabahah or bai' muajjal contract. Payments are made in fixed instalments, without interest, and if

there is a delay in payment, penalties must take the form of non-commercial ta'wīḍ allocated to social activities.

These findings overall reveal a significant gap between current BNPL practices and Sharia principles. The absence of a standardised contract structure and weak compliance frameworks hinder the formation of an authentic Sharia digital financial ecosystem. Therefore, reformulation of the model by service providers is urgently needed, with an emphasis on transparency, legal contracts, and compliance with the values of maqāṣid al-sharī'ah.

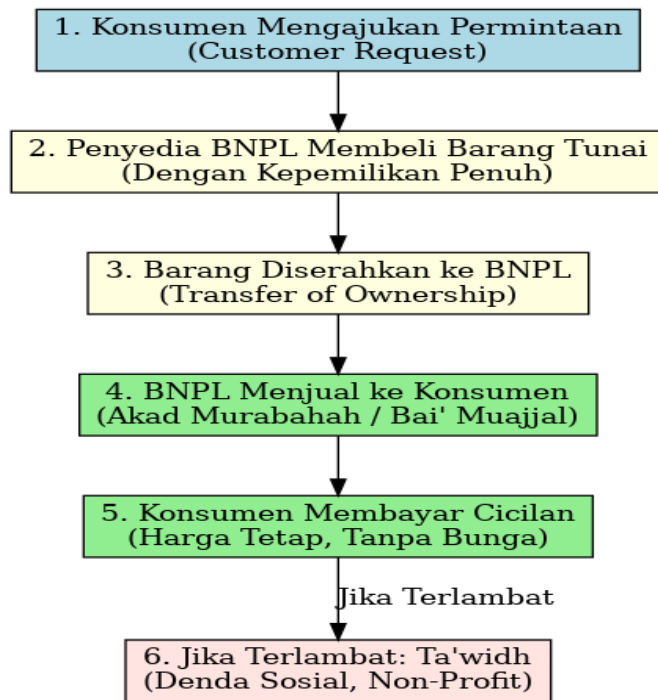
Implications of Maqāṣid al-Sharī'ah and Sharia Digital Ethics

In the context of digital financial services such as BNPL, maqāṣid al-sharī'ah is not only a normative principle, but also serves as an evaluative tool for the social and economic impact of a product. One of the main maqāṣid in financial transactions is the protection of property (ḥifẓ al-māl) and justice (al-'adl). BNPL models that do not comply with the principles of real ownership, explicit contracts, and fixed prices can indirectly cause structural injustice to consumers, especially in the form of ignorance of contracts and hidden interest traps.

AAOIFI implicitly incorporates maqāṣid into its standards by requiring information transparency, prohibiting usury, and encouraging consumer protection from exploitation based on contractual ignorance. In a fast-paced and complex digital ecosystem, the application of maqāṣid principles is increasingly relevant to ensure a balance between innovation and ethics. Going forward, any development of sharia digital financial products such as BNPL must consider maqāṣid as the meeting point between technological efficiency and social justice.

Furthermore, the maqāṣid approach can also assist regulators in assessing not only formal compliance with Sharia standards, but also the long-term impact on the financial stability of Muslim households. If BNPL services are not controlled, the potential for overconsumption, debt dependence, and weakened contractual literacy will increase. Therefore, the maqāṣid approach is not only a verification tool, but also a proactive ethical framework in designing a sustainable and beneficial Islamic digital financial system.

Ideal Sharia BNPL Transaction Flow



Explanation:

This chart shows the BNPL transaction flow in accordance with sharia principles. The process begins with the consumer submitting a request, followed by the BNPL provider purchasing the goods in cash and transferring ownership of the goods. The goods are then resold to the consumer through a *Murabahah* or *Bai' Muajjal* contract

CONCLUSION

This study concludes that the BNPL service structure currently implemented by most platforms in Indonesia and Malaysia does not comply with the Sharia standards set by AAOIFI. The ambiguity of the contract, the imperfection of the transfer of ownership, and the application of time-based fees violate the main principles of the *murabahah* and *bai' muajjal* contract standards. AAOIFI explicitly requires full ownership before sale, a fixed price without interest,

and a prohibition on profits from late payment penalties. Therefore, it is necessary to reformulate the operational structure of BNPL to comply with these standards. The recommended Sharia-compliant BNPL model includes explicit contracts, transparency of ownership, and the application of *ta'widh* social penalties to avoid violating the principle of fairness in transactions. Harmonising BNPL practices with AAOIFI standards is an important step towards building a Shariah-compliant and sustainable digital financial ecosystem.

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APPENDIX

Table 1. Analysis of BNPL Compliance with DSN-MUI and AAOIFI

Contractual Elements	DSN-MUI Provisions	AAOIFI Provisions	Findings of Indonesian BNPL	BNPL Findings in Malaysia	Compliance Analysis
Ownership of goods	DSN-MUI No. 4/2000: goods owned by the seller prior to the contract	Std. No. 8: actual ownership	No evidence of transfer	Generally direct merchant-consumer	Non-compliant (<i>gharar ownership</i>)
Price determination	Fixed price agreed upon at the outset	No. 8: <i>fixed price</i> , no re-pricing	Some tenor adjustments	Generally fixed	Partially compliant
Service fees (ujrah)	DSN 112/2017: service-based, non-time-based	No. 45: <i>ujrah</i> may not be time-based	2–3% per month	<i>Flat fee</i> per transaction	ID non-compliant; MY closer
Late payment penalty	DSN 17/2000: non-profit <i>ta'widh</i>	No. 30: allocated to charity	Generally commercial 5%	<i>Flat fee</i> without social allocation	Majority non-compliant
Early repayment discount	Voluntary <i>rebate</i>	No. 8: permissible without initial commitment	Often considered an "interest discount"	Unclear	Partially deviating
Explicit agreement in ToS	Must be clear	No. 1: contract <i>labelling</i>	Generally absent	Rarely present	Non-compliant
Transaction mechanism	<i>Bai' mu'ajjal</i> fixed price	No. 8: Deferral with a fixed price	Interest-bearing deferral	Fixed margin deferral	ID non-compliant; MY partial

Table 2. BNPL Platform Terms of Service Document Data (Indonesia–Malaysia)

No	Platform	Country	Official document	Update date	Summary of fees/penalties	Source
1	Kredivo	ID	Terms/FAQ on fees	n/a	Interest rate 2.6%/month (6–24 months)	Kredivo
2	Shopee PayLater	ID	Help centre/SPayLater page	2024	Interest/penalty information is available in the official materials	Shopee
3	GoPayLater	ID	Loan Facility Terms and Conditions	2022	Cost and penalty clauses in documents	Gojek
4	Atome Indonesia	ID	Terms of Service	n/a	Atome ID Terms of Service	Atome
5	Akulaku	ID	Akulaku PayLater Terms and Conditions (PDF)	2025	Interest rates and penalties are explicitly stated	Akulaku
6	Atome Malaysia	MY	Terms of Service (PDF)	9 May 2024	Deferred payment, penalty RM23 (+RM7)	Atome
7	PayLater by Grab	MY	Policies & Help Centre	2025	Penalty of RM10 per bill/reactivation	Grab
8	SPayLater Malaysia	MY	SPayLater Terms of Service	3 July 2025	Explanation of plans/fees linked in Help	Shopee MY
9	PayLater Malaysia	MY	Terms of Use	Active	General terms and conditions of the website/application	PayLater MY
10	myIOU	MY	Consumer Agreement/FAQ for partners	2024	Late fee RM5 or 1% of outstanding amount	myIOU
11	Hoolah/ShopBack PayLater	MY	Hoolah Terms and Conditions / ShopBack Terms and Conditions	2023–2024	Rebranded to ShopBack PayLater	Hoolah/ShopBack

Table 3. Ideal Sharia BNPL Transaction Flow Chart

Stage	Key Players	Activities	Agreement	Compliance Notes
1	BNPL Provider– Merchant	Provider purchases goods in cash	<i>Bai’ musāwamah/murābahah</i>	Goods become the property of the provider (AAOIFI No. 8)
2	Provider– Consumer	Resale at a deferred price	<i>Bai’ mu’ajjal</i>	Fixed price, margin agreed upon at the outset (DSN No. 4/2000)
3	Consumer– Provider	Installment payments	<i>Murabaha instalments</i>	with No time-based interest (AAOIFI No. 30)
4	Late payment	Penalty	Non-profit <i>ta’wīdh</i>	Allocated to charity (DSN 17/2000; IIFA 133)
5	DPS– Regulator	Periodic audit	Sharia governance	Transparency and accountability (AAOIFI No. 45; OJK/BNM)

INTRODUCTION

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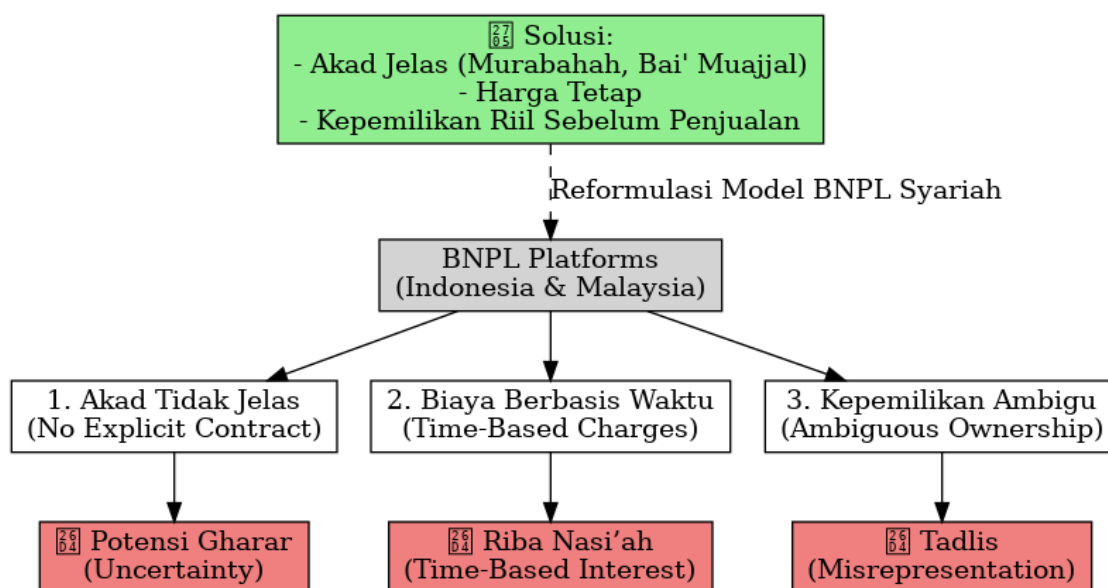
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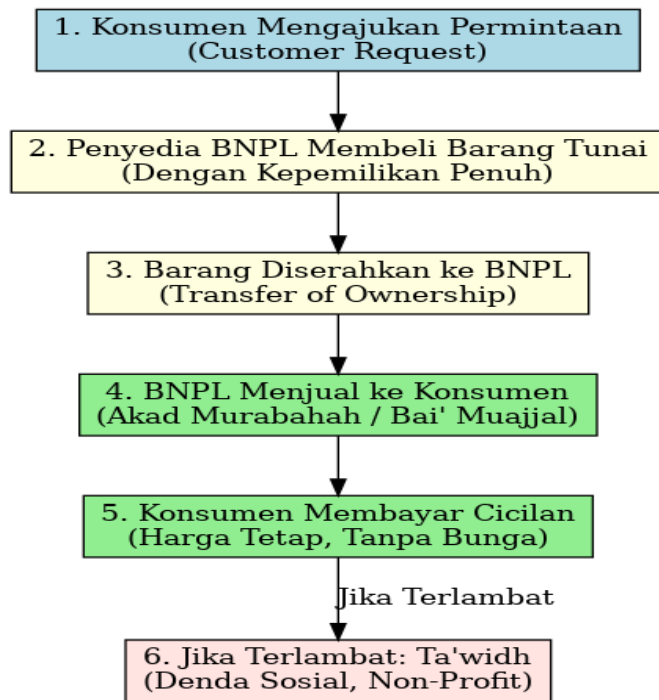
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In the context of digital financial services such as BNPL, maqāṣid al-sharī'ah is not only a normative principle, but also serves as an evaluative tool for the social and economic impact of a product. One of the main maqāṣid in financial transactions is the protection of property (ḥifẓ al-māl) and justice (al-'adl). BNPL models that do not comply with the principles of real ownership, explicit contracts, and fixed prices can indirectly cause structural injustice to consumers, especially in the form of ignorance of contracts and hidden interest traps.

AAOIFI implicitly incorporates maqāṣid into its standards by requiring information transparency, prohibiting usury, and encouraging consumer protection from exploitation based on contractual ignorance. In a fast-paced and complex digital ecosystem, the application of maqāṣid principles is increasingly relevant to ensure a balance between innovation and ethics. Going forward, any development of sharia digital financial products such as BNPL must consider maqāṣid as the meeting point between technological efficiency and social justice.

Furthermore, the maqāṣid approach can also assist regulators in assessing not only formal compliance with Sharia standards, but also the long-term impact on the financial stability of Muslim households. If BNPL services are not controlled, the potential for overconsumption, debt dependence, and weakened contractual literacy will increase. Therefore, the maqāṣid approach is not only a verification tool, but also a proactive ethical framework in designing a sustainable and beneficial Islamic digital financial system.

Ideal Sharia BNPL Transaction Flow



Explanation:

This chart shows the BNPL transaction flow in accordance with sharia principles. The process begins with the consumer submitting a request, followed by the BNPL provider purchasing the goods in cash and transferring ownership of the goods. The goods are then resold to the consumer through a Murābahah or Bai' Muajjal contract

CONCLUSION

This study concludes that the BNPL service structure currently implemented by most platforms in Indonesia and Malaysia does not comply with the Sharia standards set by AAOIFI. The ambiguity of the contract, the imperfection of the transfer of ownership, and the application of time-based fees violate the main principles of the *murābahah* and *bai' muajjal* contract standards. AAOIFI explicitly requires full ownership before sale, a fixed price without interest,

and a prohibition on profits from late payment penalties. Therefore, it is necessary to reformulate the operational structure of BNPL to comply with these standards. The recommended Sharia-compliant BNPL model includes explicit contracts, transparency of ownership, and the application of *ta'wīd* social penalties to avoid violating the principle of fairness in transactions. Harmonising BNPL practices with AAOIFI standards is an important step towards building a Shariah-compliant and sustainable digital financial ecosystem.

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APPENDIX

Table 1. Analysis of BNPL Compliance with DSN-MUI and AAOIFI

Contractual Elements	DSN-MUI Provisions	AAOIFI Provisions	Findings of Indonesian BNPL	BNPL Findings in Malaysia	Compliance Analysis
Ownership of goods	DSN-MUI No. 4/2000: goods owned by the seller prior to the contract	Std. No. 8: actual ownership	No evidence of transfer	Generally direct merchant-consumer	Non-compliant (<i>gharar ownership</i>)
Price determination	Fixed price agreed upon at the outset	No. 8: <i>fixed price</i> , no re-pricing	Some tenor adjustments	Generally fixed	Partially compliant
Service fees (ujrah)	DSN 112/2017: service-based, non-time-based	No. 45: <i>ujrah</i> may not be time-based	2–3% per month	<i>Flat fee</i> per transaction	ID non-compliant; MY closer
Late payment penalty	DSN 17/2000: non-profit <i>ta'widh</i>	No. 30: allocated to charity	Generally commercial 5%	<i>Flat fee</i> without social allocation	Majority non-compliant

Early repayment discount	Voluntary rebate	No. 8: permissible without initial commitment	Often considered an "interest discount"	Unclear	Partially deviating
Explicit agreement in ToS	Must be clear	No. 1: contract labelling	Generally absent	Rarely present	Non-compliant
Transaction mechanism	<i>Bai' mu'ajjal</i> fixed price	No. 8: Deferral with a fixed price	Interest-bearing deferral	Fixed margin deferral	ID non-compliant; MY partial

Table 2. BNPL Platform Terms of Service Document Data (Indonesia–Malaysia)

No	Platform	Country	Official document	Update date	Summary of fees/penalties	Source
1	Kredivo	ID	Terms/FAQ on fees	n/a	Interest rate 2.6%/month (6–24 months)	Kredivo
2	Shopee PayLater	ID	Help centre/SPayLater page	2024	Interest/penalty information is available in the official materials	Shopee
3	GoPayLater	ID	Loan Facility Terms and Conditions	2022	Cost and penalty clauses in documents	Gojek
4	Atome Indonesia	ID	Terms of Service	n/a	Atome ID Terms of Service	Atome
5	Akulaku	ID	Akulaku PayLater Terms and Conditions (PDF)	2025	Interest rates and penalties are explicitly stated	Akulaku
6	Atome Malaysia	MY	Terms of Service (PDF)	9 May 2024	Deferred payment, penalty RM23 (+RM7)	Atome
7	PayLater Grab	by MY	Policies & Help Centre	2025	Penalty of RM10 per bill/reactivation	Grab
8	SPayLater Malaysia	MY	SPayLater Terms of Service	3 July 2025	Explanation of plans/fees linked in Help	Shopee MY
9	PayLater Malaysia	MY	Terms of Use	Active	General terms and conditions of the website/application	PayLater MY
10	myIOU	MY	Consumer Agreement/FAQ for partners	2024	Late fee RM5 or 1% of outstanding amount	myIOU
11	Hoolah/ShopBack PayLater	MY	Hoolah Terms and Conditions / ShopBack Terms and Conditions	2023–2024	Rebranded to ShopBack PayLater	Hoolah/ShopBack

Table 3. Ideal Sharia BNPL Transaction Flow Chart

Stage	Key Players	Activities	Agreement	Compliance Notes
1	BNPL Provider– Merchant	Provider purchases goods in cash	<i>Bai’ musāwamah/murābahah</i>	Goods become the property of the provider (AAOIFI No. 8)
2	Provider– Consumer	Resale at a deferred price	<i>Bai’ mu’ajjal</i>	Fixed price, margin agreed upon at the outset (DSN No. 4/2000)
3	Consumer– Provider	Installment payments	<i>Murabaha instalments</i>	with No time-based interest (AAOIFI No. 30)
4	Late payment	Penalty	Non-profit <i>ta’wīdh</i>	Allocated to charity (DSN 17/2000; IIFA 133)
5	DPS– Regulator	Periodic audit	Sharia governance	Transparency and accountability (AAOIFI No. 45; OJK/BNM)

INTRODUCTION

Buy Now Pay Later (BNPL) services have experienced rapid growth in recent years as a more flexible digital financing alternative. This scheme allows consumers to purchase goods or services now and defer payment in several interest-free instalments over a specified period. In Indonesia and Malaysia, BNPL has become a popular solution, especially among young consumers who want a quick and easy payment method without having to use a credit card. (Khan, S., et al. 2022); (Lim, W. M., et al., 2023); (Siahaan et al., 2022).

However, with the rapid growth of this service, serious concerns have arisen in the context of Islamic economic law. The main question that arises is whether the BNPL model is in accordance with sharia principles, especially in terms of the clarity of the contract, cost structure, ownership of goods, and penalty mechanisms for late payments. Many BNPL platforms do not explicitly explain the type of contract used and still apply time-based additional fees that resemble interest (*riba*), which is prohibited under Sharia law. (Rochma, et al., 2025)

This study aims to analyse the contract structure and key elements in BNPL services based on international Sharia standards set by AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions), as the main reference institution in the preparation of contracts and global Sharia financial practices. Using a normative-comparative legal approach, this study examines the Terms of Service documents of several BNPL platforms operating in Indonesia and Malaysia and evaluates their compliance with AAOIFI standards, particularly in terms of contracts, ownership, fixed prices, and non-profit penalty mechanisms. (AAOIFI, 2017)

This study is expected to contribute to strengthening digital Islamic finance practices that are not only technologically innovative but also aligned with the principles of fairness, transparency, and consumer protection within the framework of *maqāṣid al-sharī'ah*.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

BNPL is a digital financing scheme that allows consumers to purchase goods or services and pay later in instalments. In the context of sharia, BNPL is considered valid if it meets the requirements of a clear contract, real ownership by the seller, and does not contain *riba* or *gharar* (Rashid, et al., 2024).

Sharia compliance refers to the conformity of a product, service, or transaction with the principles of Islamic law. In Islamic finance, this includes the prohibition of *riba*, *gharar*, and *maysir*, as well as the fulfilment of the pillars and conditions of a contract. This compliance serves as an indicator of the halal status and legal legitimacy of a financial service such as BNPL. (Kurniawan, et al., 2024).

A contract is an agreement that forms the basis of a valid transaction in Islamic law. In Sharia finance, a contract must include *ijab-qabul*, a clear object, and certain conditions. For BNPL schemes, contracts such as *murābaḥah*, *bai' muajjal*, or *ijārah muntahiyah bi tamlīk* can be used with the appropriate structure (Ritonga, et al., 2025).

AAOIFI is an international institution that issues Sharia standards for Islamic financial institutions. AAOIFI standards are widely used as the main reference in determining the legality of transactions, contract structures, ownership, and risk management in financial products, including BNPL.

In Shariah, penalties for late payments are only permitted if they compensate for actual losses and cannot be a source of profit. This is called *ta'wīḍ*, and must be allocated for social purposes, not as company income. This concept distinguishes between penalties in Shariah finance and interest in the conventional system (Adam, et al., 2021).

AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions) is an international institution that sets sharia standards in Islamic financial transactions, including sales contracts such as *murabahah* and *bai' muajjal*. These standards are widely recognised by the global Islamic finance industry as the main reference in determining the legality of contracts and transaction structures.

In the context of BNPL services, AAOIFI standards stipulate that contracts must be explicit and documented, ownership of goods by the seller (BNPL provider) must be complete before the transaction is executed, and the sale price must remain fixed without any additional charges due to delayed payment. In addition, AAOIFI rejects profits from late payment penalties and only allows non-profit *ta'wīḍ* as compensation for late payments.

Based on these standards, an evaluation of BNPL practices in Indonesia and Malaysia can be conducted by identifying the extent to which platforms implement appropriate contract structures, ownership mechanisms, and fee systems. The relevant literature shows that many BNPL platforms have not fully adopted these practices, making it important to conduct an in-depth analysis of the compliance of their practices with AAOIFI principles.

Research Methodology

This study uses a normative legal approach with qualitative methods. This approach aims to analyse sharia provisions based on AAOIFI international standards related to consumer financing transactions, particularly in Buy Now Pay Later (BNPL) services. The main focus is on contract structures, ownership, pricing, and penalty mechanisms from a sharia perspective.

Data was obtained through a document study of AAOIFI standards, particularly on *murabahah* contracts, *bai' muajjal*, and provisions regarding late payment penalties. The Terms of Service documents of a number of BNPL platforms in Indonesia and Malaysia were also examined to be compared with AAOIFI standards. This comparison was used to identify gaps between actual practices and ideal Sharia provisions.

The analysis was conducted textually using a normative-comparative approach to the content of AAOIFI standards and platform practices. Validity was maintained through the use of official sources and primary data from the platforms. The evaluation was conducted based on the principles of fairness and

consumer protection in accordance with maqāsid al-sharī'ah accommodated in AAOIFI standards.

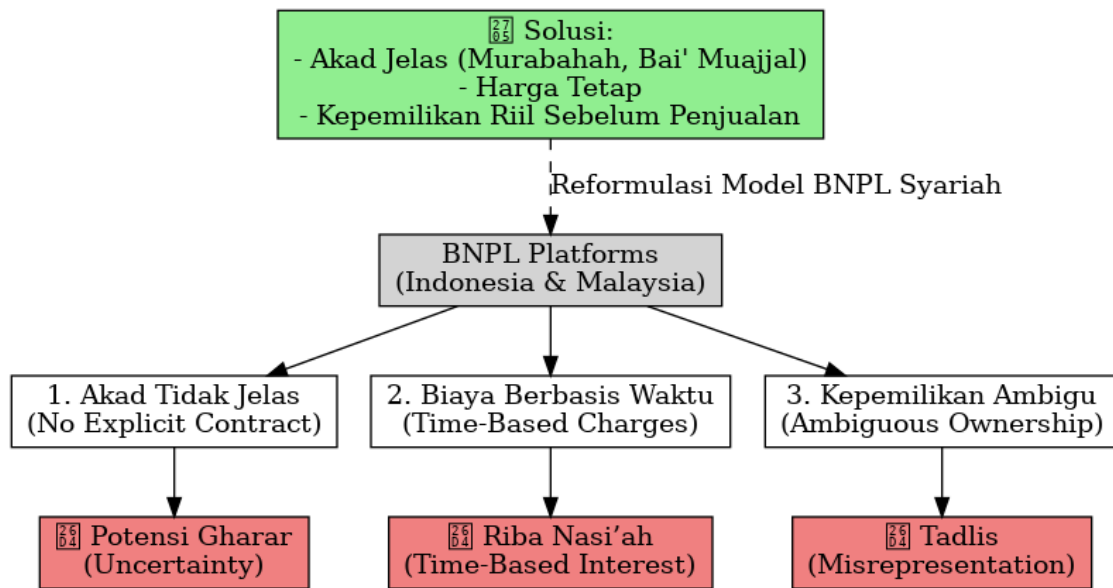
DISCUSSION

First Discussion

The findings of this study indicate that most BNPL platforms operating in Indonesia and Malaysia do not explicitly state the type of Sharia contract used in their services. This lack of clarity creates legal ambiguity in the relationship between service providers and consumers. Generally, these platforms apply a time-based fee scheme that resembles conventional consumer credit, which directly contradicts the principles of Islamic finance, particularly those related to ownership of goods, fixed prices, and the prohibition of time-based interest (*riba nasi'ah*).

For example, platforms such as Kredivo and Shopee PayLater still impose monthly interest without referring to contract structures that are valid according to Sharia, such as *murābahah* or *bai' muajjal*. This raises serious issues in the context of compliance with Sharia principles. Although BNPL offers convenience and flexibility in transactions, the contract structure used still does not meet the requirements for a valid transaction according to Islamic law.

In this context, this study emphasises the importance of transparency and clarity in the legal design of BNPL services. Without an appropriate explanation of the contract and alignment with approved Sharia models, BNPL services risk containing elements of *gharar* (uncertainty) and *tadlis* (deception), both of which are prohibited in the Sharia economy. Fulfilling requirements such as ownership of goods by the provider prior to sale, fixed pricing, and penalties directed towards social purposes are important steps towards a Sharia-compliant BNPL system.



Second Discussion

The second part of this discussion explains the empirical findings reflected in Table 1, Table 2, and Table 3.

Table 1 presents a comparative analysis of the elements of BNPL service contracts with reference to the murābahah and bai' muajjal standards according to AAOIFI. The findings show that the majority of BNPL platforms in Indonesia and Malaysia do not show evidence of ownership of goods by the service provider prior to sale to consumers, which contradicts the AAOIFI provision that the seller must legally and physically own the goods prior to the transaction. This indicates a violation of the tamlik principle, which is the basis of the legality of sales contracts in AAOIFI's version of Sharia law.

The pricing structure is also a major issue. Platforms such as Kredivo and Akulaku apply monthly interest rates of 2.6% to 3%, which clearly indicates a time-based approach contrary to the AAOIFI fatwa which requires fixed prices that cannot change over time. Although Atome Malaysia implements a fixed fee system, there are still issues regarding the transparency of contracts and ownership.

Table 2 highlights weaknesses in the Terms of Service (ToS) documents published by several platforms. Generally, these documents do not explicitly state the type of Shariah contract, do not explain when the transfer of ownership occurs, and do not clearly explain the allocation of late fees. This lack of clarity raises the potential for gharar (uncertainty) and weakens legal protection for Muslim consumers.

Table 3 presents the recommended ideal sharia BNPL transaction model. This model emphasises that service providers must first purchase goods in cash from merchants, then resell them to consumers through a murabahah or bai' muajjal contract. Payments are made in fixed instalments, without interest, and if

there is a delay in payment, penalties must take the form of non-commercial ta'wīḍ allocated to social activities.

These findings overall reveal a significant gap between current BNPL practices and Sharia principles. The absence of a standardised contract structure and weak compliance frameworks hinder the formation of an authentic Sharia digital financial ecosystem. Therefore, reformulation of the model by service providers is urgently needed, with an emphasis on transparency, legal contracts, and compliance with the values of maqāṣid al-sharī'ah.

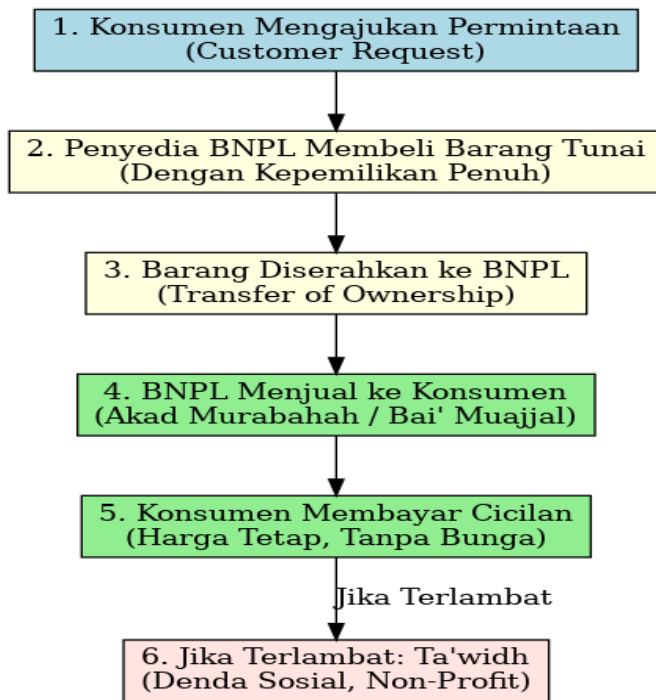
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Ideal Sharia BNPL Transaction Flow



Explanation:

This chart shows the BNPL transaction flow in accordance with sharia principles. The process begins with the consumer submitting a request, followed by the BNPL provider purchasing the goods in cash and transferring ownership of the goods. The goods are then resold to the consumer through a Murābahah or Bai' Muajjal contract

CONCLUSION

This study concludes that the BNPL service structure currently implemented by most platforms in Indonesia and Malaysia does not comply with the Sharia standards set by AAOIFI. The ambiguity of the contract, the imperfection of the transfer of ownership, and the application of time-based fees violate the main principles of the *murābahah* and *bai' muajjal* contract standards. AAOIFI explicitly requires full ownership before sale, a fixed price without interest,

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3	Consumer– Provider	Installment payments	<i>Murabaha instalments</i>	with No time-based interest (AAOIFI No. 30)
4	Late payment	Penalty	Non-profit <i>ta’wīdh</i>	Allocated to charity (DSN 17/2000; IIFA 133)
5	DPS– Regulator	Periodic audit	Sharia governance	Transparency and accountability (AAOIFI No. 45; OJK/BNM)