



The Role of Innovation in Development of Islamic Financial Products in Makassar

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ABSTRACT

This research aims to explore the role of innovation in the development of Islamic financial products in Makassar, focusing on the challenges and opportunities involved. The research methodology includes in-depth interviews, participatory observation, and documentary analysis to gain a profound understanding of the perception and implementation of innovation among Islamic banks, regulators, and the Makassar community. The findings indicate that despite efforts to introduce new products and improve services, Islamic banks in Makassar still face challenges regarding public understanding of Islamic financial products and the need for further refinement of regulations. However, there are significant opportunities through the integration of financial technology (fintech) to enhance access and efficiency of Islamic financial services. The study concludes that closer collaboration among Islamic banks, government authorities, and educational institutions is necessary to enhance Islamic financial literacy and develop regulations that support sustainable innovation. The practical implications of these findings include the development of effective communication strategies and comprehensive education programs to expand the user base of Islamic financial products in Makassar. This research provides a significant contribution to understanding how innovation can play a crucial role in developing an inclusive and sustainable Islamic financial ecosystem in the city of Makassar, Indonesia.

1. Introduction

Islamic finance has attracted global attention in recent decades as an ethical and sustainable alternative to the conventional financial system. The sharia principles underlying Islamic financial products prohibit the practices of *riba* (interest), *gharar* (uncertainty), and *maisir* (speculation). These principles are not only relevant to Muslim communities but also appeal to broader society seeking transparency, fairness, and sustainability in financial systems. Globally, the Islamic finance industry has experienced significant growth through the expansion of sharia banking, Islamic capital markets, *takaful*, and financial technology integration. Recent studies emphasize that innovation has become a key driver in enhancing the competitiveness, inclusiveness, and sustainability of Islamic financial institutions in various countries (Hasan, MM, Dridi, J., & Atri, S., 2023).

Indonesia, as the country with the largest Muslim population in the world, possesses substantial potential for the development of Islamic finance. One of the cities with strong prospects for becoming a center of Islamic financial innovation is Makassar. The city is characterized by rapid economic growth, increasing digital transformation, and a predominantly Muslim population, creating a conducive environment for the development of innovative Islamic financial products and services. Islamic financial innovation in Makassar can contribute significantly to strengthening local economic resilience and improving financial inclusion, particularly for communities and small business actors who still face limitations in accessing formal financial services. In this context, Islamic finance is expected to become not only a religious alternative but also a strategic instrument for regional economic development.

Innovation in Islamic finance involves multiple dimensions, including new product development, service enhancement, institutional transformation, and the integration of digital technology. In Makassar, these innovations can take the form of Islamic microfinance services supporting small and medium enterprises (SMEs), sharia-compliant investment products attracting both local and international investors, and digital banking services that expand access to Islamic financial services. Financial technology (*fintech*) plays an increasingly important role in accelerating this transformation by improving operational efficiency, transparency, and financial inclusion. Fintech enables communities that were previously underserved by traditional banking institutions to gain access to Islamic financial services more effectively and efficiently (Muhamad, N., & Harun, 2022). Consequently, technological integration has become one of the most strategic instruments for enhancing the competitiveness of Islamic finance in emerging regional economies.

Despite its significant potential, the development of innovation in Islamic financial products in Makassar still faces several challenges. One of the primary obstacles is the relatively low level of public understanding regarding the concepts, mechanisms, and benefits of Islamic financial products. Many individuals do not yet fully comprehend the principles underlying Islamic finance and the value-added aspects distinguishing it from conventional finance. This lack of literacy contributes to limited public trust and acceptance of Islamic financial products. Previous studies highlight that education and literacy programs are essential in increasing public awareness and reducing uncertainty regarding Islamic financial systems (Ahmed, H., & Ahmed, 2022). Therefore, improving Islamic financial literacy represents an important prerequisite for supporting sustainable innovation in this sector.

Another challenge concerns the limitations of supporting infrastructure and regulatory frameworks. The development of innovative Islamic financial products requires adequate technological infrastructure, institutional readiness, and adaptive regulations capable of accommodating rapid changes in the financial sector. However, regulatory frameworks are often considered insufficiently flexible to respond to the dynamic

evolution of Islamic financial innovation. This condition may hinder industry players from exploring innovative business models while remaining compliant with sharia principles. Previous research emphasizes that collaboration between governments, financial authorities, and industry stakeholders is crucial in creating an ecosystem that supports sustainable Islamic financial innovation (Kassim, S., & Mahdzan, 2021). Thus, strengthening institutional cooperation and regulatory adaptation becomes an important factor in supporting the future growth of Islamic finance in Makassar.

On the other hand, Makassar possesses substantial opportunities to accelerate the development of Islamic financial innovation. The large Muslim population represents a strong potential market for Islamic financial products and services. Furthermore, support from government institutions and international financial organizations can accelerate the development of the sector through fiscal incentives, training programs, technological support, and international collaboration. Such support can strengthen institutional capacity and encourage the creation of innovative Islamic financial products that are competitive at both national and global levels (Malik & Pervaiz, 2021). These opportunities indicate that Makassar has the potential to emerge as a regional hub for Islamic financial innovation in Eastern Indonesia.

The development of Islamic financial innovation in Makassar not only has the potential to improve financial inclusion but also to strengthen the city's position as a dynamic, sustainable, and technology-driven economic center. By utilizing digital technology, strengthening public education, and enhancing collaboration among stakeholders, Islamic financial innovation can contribute positively to both local and national economic growth (Elshandidy, & Malagueno, 2020). However, although previous studies have discussed Islamic finance innovation broadly, limited research specifically examines the integration of technological innovation, regulatory readiness, financial literacy, and local economic potential within the context of Makassar. Most previous studies focus predominantly on national-level Islamic finance development or broader global perspectives, thereby leaving a contextual gap

regarding the specific challenges and opportunities faced by regional cities such as Makassar.

Based on these conditions, this study identifies a research gap related to the limited empirical understanding of how Islamic financial innovation can be effectively developed within a regional economic context characterized by rapid digital transformation and diverse socio-economic conditions. Existing studies have not adequately explored the interconnected roles of fintech adoption, public literacy, regulatory support, and stakeholder collaboration in shaping Islamic financial innovation at the local level. Consequently, there remains a need for a more comprehensive analysis capable of explaining the opportunities and barriers influencing the development of Islamic financial products in Makassar.

Accordingly, the research problem addressed in this study is how innovation in Islamic financial products can be developed effectively in Makassar by considering existing challenges and opportunities. This study specifically seeks to examine the forms of Islamic financial innovation emerging in Makassar, identify the major obstacles hindering innovation, and analyze the strategic opportunities supporting sustainable development in the sector.

Therefore, the objectives of this study are: (1) to explore various forms of innovation in the development of Islamic financial products in Makassar; (2) to identify the challenges affecting the implementation and growth of Islamic financial innovation; and (3) to analyze opportunities and formulate strategic recommendations for strengthening Islamic financial development in Makassar. Through these objectives, the study aims to provide a comprehensive understanding of the dynamics influencing Islamic financial innovation at the regional level.

Theoretically, this study contributes to the literature on Islamic finance by enriching discussions regarding the relationship between financial innovation, fintech integration, financial literacy, and regulatory support within the context of regional economic development. The study also extends previous research by providing contextual insights from Makassar as an emerging center of Islamic financial innovation in Indonesia. Practically, the findings are expected to provide implications for policymakers, Islamic financial

institutions, fintech developers, and other stakeholders in designing effective strategies to enhance innovation, strengthen public trust, and improve financial inclusion. The novelty of this study lies in its comprehensive analysis of the interaction between technological innovation, local economic potential, stakeholder collaboration, and regulatory readiness in the development of Islamic financial products within the specific regional context of Makassar.

2. Literature Review

2.1 Conceptual and Theoretical Foundations

2.1.1 Innovation Theory

Innovation, according to Schumpeter, is a key element driving economic development and industrial sector transformation. In economic theory, innovation is often considered the main driver of change, enabling the creation of new, more effective and efficient products, services, or methods (Perdana, 2024). This concept, first developed by Joseph Schumpeter, emphasizes that innovation includes not only the creation of something new but also the adaptation or improvement of what already exists. In the context of Islamic finance, innovation becomes very relevant to create financial products that are not only in accordance with Islamic principles but also able to meet the needs of modern society.

2.1.2 Islamic Finance

The Islamic financial system does not allow debt formation through direct lending. Instead, debt is created through lease-based loans with financing models such as murabahah, ijarah, salam, istishna', and sukuk. These products must comply with the following rules (Wahid, 2021): (1) The assets sold or leased must be real and not fictitious. (2) The seller or lessor must own the goods to be sold or leased.; (3) The transaction must be a pure trade with the intention to provide and receive goods or services in real terms. (4) Debt cannot be sold, so the risk of default remains borne by the lender. The Islamic financial system is able to reduce the frequency of financial crises by introducing stricter discipline. Investors are required to share risks, so that credit expansion is more related to real economic growth and is used for the purchase of real goods and services that are actually owned. This system also requires creditors to bear the risk of default by

prohibiting the sale of debt, so that risk evaluation becomes more careful. In addition, Islamic finance can reduce the problem of subprime credit by providing affordable credit. This approach can also serve as a savings measure after a crisis. Research.

2.1.3 Diffusion of Innovation

Diffusion of innovation is a process in which an innovation is introduced and accepted by society through certain stages. According to this theory, the adoption of an innovation by society involves several stages, namely knowledge, interest, evaluation, trial, and adoption. In Islamic finance, the success of innovation is highly dependent on the ability of financial institutions to educate the public about the benefits and advantages of Islamic products, as well as provide easy and affordable access (Herdiani, 2023).

2.1.4 Consumer Behavior

Consumer behavior in choosing Islamic financial products is influenced by various factors, such as religious values, financial needs, and product accessibility. Therefore, innovation in Islamic finance must consider these aspects. Products that are simple, transparent, and in accordance with the needs of the local community are more likely to be accepted and adopted by consumers (Anwar, 2023).

2.1.5 Digital Transformation

Digital transformation in Islamic finance opens up new opportunities for innovation. Services such as Islamic fintech, digital banking, and blockchain-based applications enable people to access financial services more easily and efficiently. Digital transformation enables financial institutions to reach previously unreachable communities, especially in rural or remote areas. Islamic fintech-based applications, for example, can provide wider access to the public to use Islamic financial services, such as microfinance, sharia-based investments, or education savings. This technology can also improve the operational efficiency of financial institutions and provide better transparency to consumers (Sudarmanto, 2024).

2.2 Review of Empirical Studies

Recent empirical studies have demonstrated that innovation plays an important role in increasing

the competitiveness and sustainability of Islamic financial institutions. Research conducted by Perdana (2024) emphasizes that innovation contributes significantly to improving the efficiency and adaptability of Islamic financial services in responding to changing market demands and technological developments. Similarly, studies on digital transformation in Islamic finance indicate that Islamic fintech and digital banking services have enhanced financial accessibility and operational efficiency, particularly for underserved communities (Sudarmanto, 2024).

Empirical evidence also shows that the successful adoption of Islamic financial innovation is strongly influenced by public understanding and accessibility. Herdiani (2023) explains that the diffusion of innovation process in Islamic finance requires effective public education and communication strategies to increase awareness and acceptance of Islamic financial products. Furthermore, consumer behavior studies reveal that religious values, transparency, and product simplicity are major determinants influencing customer preferences for Islamic financial services (Anwar, 2023). These findings indicate that innovation in Islamic finance should not only focus on technological advancement but also on aligning products with social and religious expectations.

Although previous studies have provided important insights regarding innovation, digital transformation, and consumer behavior in Islamic finance, most studies still focus on general discussions of Islamic financial development without specifically examining how innovation diffusion, consumer behavior, and digital transformation interact simultaneously within the Islamic financial ecosystem. In addition, several studies remain limited to urban contexts and large-scale financial institutions, leaving limited empirical evidence regarding accessibility and adoption in broader community settings.

2.3 Identification of the Research Gap

Based on the theoretical and empirical review, several research gaps can be identified. First, previous studies have largely discussed innovation, consumer behavior, and digital transformation separately, while limited research integrates these perspectives comprehensively in the context of Islamic finance. Second, although digital

transformation has been recognized as an important factor in improving financial inclusion, empirical studies examining how digital innovation influences public acceptance and adoption of Islamic financial services remain limited.

Third, prior research tends to focus on institutional and technological aspects rather than exploring how innovation diffusion and consumer behavior collectively influence the success of Islamic financial products in society. Furthermore, existing studies often emphasize large urban financial institutions, creating a contextual gap related to the implementation and accessibility of Islamic financial innovations in broader and potentially underserved communities. Therefore, this study seeks to address these gaps by examining the interconnected roles of innovation, diffusion of innovation, consumer behavior, and digital transformation in supporting the development and acceptance of Islamic finance.

2.4 Development of the Conceptual Framework

This study is conceptually grounded in the integration of Innovation Theory, Diffusion of Innovation Theory, Consumer Behavior Theory, and Digital Transformation perspectives in explaining the development and acceptance of Islamic financial services. Innovation theory explains the importance of developing adaptive and efficient financial products, while diffusion of innovation theory highlights the stages through which society accepts new financial innovations. Consumer behavior theory provides insight into the factors influencing public preferences and adoption decisions, including religious values, accessibility, and transparency. Meanwhile, digital transformation serves as a facilitating factor that enhances accessibility, efficiency, and outreach of Islamic financial services.

The conceptual framework of this study emphasizes the relationship between innovation in Islamic finance, the diffusion process of Islamic financial products, consumer acceptance, and digital transformation in improving accessibility and adoption of Islamic financial services. However, this study does not explicitly present a visual conceptual framework figure because the available research material does not include a formal conceptual model or diagram.

2.5 Hypotheses or Research Propositions

This study does not explicitly formulate hypotheses or research propositions because the available research material does not provide a specific conceptual model or variable-based framework suitable for hypothesis development. Instead, the study focuses on explaining the theoretical relationships among innovation, Islamic finance, diffusion of innovation, consumer behavior, and digital transformation as the analytical basis for understanding the development and adoption of Islamic financial services.

3. Research Methods

3.1 Research Design

This study adopts a qualitative research approach with an exploratory case study design. The qualitative approach is appropriate because the study seeks to explore participants' experiences, perceptions, and views regarding innovation in Islamic financial products. The exploratory case study design was selected because it allows researchers to investigate a specific phenomenon in depth within a real-life context, namely the development of Islamic financial products in Makassar City. Furthermore, the exploratory approach facilitates the identification of challenges and opportunities faced by Islamic financial institutions in developing innovative financial products (Ariff, M., & Yee, S. H., 2020).

3.2 Research Context and Setting

The research was conducted in Makassar City, Indonesia. Makassar was selected as the research setting because of its significant potential in the development of Islamic financial products and services. The city has experienced increasing growth in Islamic banking activities and financial innovation, making it a relevant context for examining the dynamics of Islamic financial product development. The setting provides an appropriate environment to understand how innovation is implemented within Islamic financial institutions and how stakeholders respond to these developments.

3.3 Population and Sample / Research Participants

The participants in this study consisted of stakeholders directly involved in Islamic financial

product development and utilization in Makassar. These participants included representatives from Islamic banking institutions, such as product managers, marketing staff, and innovation staff working in Islamic banks operating in Makassar. In addition, customers who use Islamic financial products, including both individual and business customers, were involved as participants. Regulators and other stakeholders, such as officials from financial authorities, Islamic supervisory institutions, and related organizations, also participated in the study.

The participant selection process was conducted purposively to ensure that the selected individuals possessed relevant knowledge, experience, and involvement in Islamic financial innovation. This purposive selection supports the credibility of the findings by ensuring that the collected information reflects the phenomenon under investigation.

3.4 Data Sources and Data Collection

This study utilized both primary and secondary data sources. Primary data were collected through in-depth interviews and participant observation. In-depth interviews were conducted with Islamic banking representatives, customers, and regulators to obtain comprehensive information regarding their experiences, perceptions, and perspectives on innovation in Islamic financial products in Makassar. Participant observation was also carried out in several Islamic banks and Islamic financial institutions to understand operational processes and innovation practices implemented within the institutions.

Secondary data were obtained from documentation and literature sources, including annual reports of Islamic banks, official publications from financial authorities, and previous studies related to Islamic financial innovation. The use of multiple data sources aimed to enrich the analysis and enhance the comprehensiveness of the findings.

3.5 Measurement of Variables and Research Instruments

This study does not employ quantitative variables or statistical measurement scales because it uses a qualitative research approach. Therefore, there are no operationalized variables measured using numerical indicators. Instead, the study

focuses on exploring key concepts related to innovation in Islamic financial products through qualitative inquiry.

The primary research instruments used in this study were interview guidelines, observation notes, and documentation review protocols. The interview guidelines were designed to facilitate systematic exploration of participants' experiences, perceptions, and views related to Islamic financial innovation in Makassar.

3.6 Data Analysis Techniques

The collected data were analyzed using thematic analysis techniques. The analysis process involved several stages. First, interview data were transcribed verbatim to ensure data accuracy and completeness. Second, the transcribed data were coded to identify relevant categories and themes related to innovation in Islamic financial products. Third, the identified themes were analyzed in depth to explore relationships among themes and to develop a comprehensive understanding of the phenomenon under study.

Thematic analysis was chosen because it is suitable for identifying patterns and meanings within qualitative data. This technique enables researchers to interpret participants' experiences systematically and comprehensively.

3.7 Validity, Reliability, and Trustworthiness

To ensure the trustworthiness of the study, several procedures were implemented. Data triangulation was applied by comparing information obtained from different participants and through various data collection techniques, including interviews, observations, and documentation analysis. This process helped improve the credibility and consistency of the findings.

In addition, member checking was conducted by reconfirming the collected information with research participants to ensure the accuracy and appropriateness of the interpretations. These procedures enhanced the credibility, dependability, and confirmability of the qualitative findings.

3.8 Ethical Considerations

This study considered ethical aspects throughout the research process. Participants were informed about the purpose of the study and their voluntary involvement before the interviews and

observations were conducted. The researcher also maintained the confidentiality and privacy of participants by ensuring that the information obtained was used solely for academic purposes.

However, this study did not specifically report formal ethical clearance or institutional ethical approval. Therefore, the research relied primarily on informed consent, confidentiality, and responsible data management practices during the research process.

3.9 Research Procedure

The research procedure was conducted systematically through several stages. The first stage involved identifying the research problem and reviewing relevant literature related to innovation in Islamic financial products. The second stage involved selecting research participants and preparing research instruments such as interview guidelines and observation protocols.

The third stage consisted of data collection through interviews, participant observation, and documentation analysis. The fourth stage involved organizing and transcribing the collected data, followed by thematic coding and analysis. Finally, the findings were interpreted comprehensively to identify the challenges and opportunities associated with innovation in Islamic financial products in Makassar.

3.10 Methodological Limitations

This study has several methodological limitations. First, the qualitative approach and exploratory case study design focus specifically on the context of Makassar City, which may limit the generalizability of the findings to other regions or contexts. Second, the study relies heavily on participants' perceptions and experiences, which may introduce subjective interpretations.

In addition, the study does not employ quantitative measurements or statistical testing, which limits the ability to quantify the relationships among variables. Despite these limitations, the qualitative approach provides rich and in-depth insights into innovation in Islamic financial products and contributes to understanding the phenomenon within its specific context.

4. Results and Discussion

4.1 Research Results

4.1.1 Sample Description and Descriptive Statistics

This study used a qualitative approach involving several research informants consisting of Islamic bank representatives, customers, and regulators in Makassar. Data were obtained through in-depth interviews, participatory observation, and documentation analysis to explore the strategic role of innovation in the development of Islamic financial products in Makassar. The findings indicate that innovation in Islamic finance is strongly influenced by social, economic, and technological conditions in the region (Majeed & Iqbal, 2020).

Because this research employed a qualitative approach, descriptive statistical analysis such as means, standard deviations, frequencies, and percentages was not used. The study focused on exploring meanings, experiences, and perceptions related to innovation in Islamic financial products rather than measuring numerical relationships.

4.1.2 Data Quality and Preliminary Analysis

This study did not employ quantitative testing procedures such as normality tests, multicollinearity tests, reliability tests, or model fit analysis because the research used a qualitative methodology. Data quality was ensured through triangulation techniques involving interviews, observations, and documentation analysis to strengthen the credibility and validity of the findings.

4.1.3 Main Analytical Results

This study highlights the strategic role of innovation in the development of Islamic financial products in Makassar, which is influenced by social, economic, and technological conditions. The findings reveal several key points related to the dynamics of innovation in the Islamic financial sector and the challenges and opportunities that accompany it. From the results of in-depth interviews with Islamic banks, customers, and regulators, as well as through participatory observation and documentation analysis, several key findings were identified (Majeed, & Iqbal, 2020).

a. Innovation as an Answer to Market Dynamics

Innovation in Islamic financial products in Makassar plays an important role in responding to

increasingly complex and dynamic market needs. With a Muslim majority population and fairly rapid economic growth, Makassar has a great opportunity to become a competitive Islamic financial center. Innovation is not only needed to increase the competitiveness of Islamic financial institutions, but also to address challenges such as limited public access to formal financial services.

However, the challenges faced, such as the lack of public understanding of Islamic finance and limited technological infrastructure, indicate the need for closer synergy between the government, regulators, and the private sector. Support from all parties is needed to create an environment that encourages innovation. (Azman & Habibullah, 2020).

b. Potential of Fintech Integration in Islamic Finance

This study also found that there is a great opportunity for the development of more innovative Islamic financial products in Makassar. One of the main opportunities is the use of financial technology (fintech) to improve financial access and inclusion. (Beck & Pamuk, 2016). Financial technology (fintech) offers great potential to overcome various barriers to the accessibility of Islamic finance. The adoption of fintech allows Islamic financial institutions to expand their service reach to previously difficult-to-reach segments of society, such as rural communities or MSMEs in Makassar. (Ali, R., & Kumar, 2019). This technology not only improves the operational efficiency of Islamic banks, but also opens up opportunities to create more flexible, transparent, and sharia-compliant financial products. Adaptive regulatory support is an important prerequisite for maximizing this potential.

c. The Importance of Islamic Financial Education and Literacy

One of the main obstacles in the development of Islamic financial products in Makassar is the low level of financial literacy in the community. Lack of understanding of the benefits, mechanisms, and values underlying Islamic financial products is often a barrier to adoption. Therefore, Islamic banks need to develop effective communication strategies and comprehensive education programs to increase public awareness

and acceptance of Islamic financial products. (Beck & Pamuk, 2016). Comprehensive and easily accessible education programs are the solution to overcome this obstacle. Islamic banks need to work with various parties, including educational institutions, local communities, and the media, to educate the public. In addition, educational campaigns must be designed in such a way as not only to introduce the product, but also to integrate knowledge of the sharia principles that underlie the product.

d. The Significance of Adaptive and Progressive Regulation

Regulations that support innovation are a key element in the development of the Islamic financial sector. Flexible regulations that still comply with Islamic principles can provide space for financial institutions to innovate without sacrificing fundamental Islamic values.

Collaboration between the government, financial authorities, and the private sector is needed to create a conducive regulatory framework. An inclusive approach involving all stakeholders can ensure that regulations not only support innovation but also provide protection for consumers. In the context of Makassar, progressive regulations can facilitate the development of sharia financial products that are relevant to local needs while encouraging the sustainable growth of this sector (Haniffa & Hudaib, 2018).

e. Strategic Implications

1) Encouraging Collaboration between Islamic Banks and Fintech

Collaboration between Islamic banks and fintech companies can be a major catalyst in delivering new innovations and improving operational efficiency. By utilizing digital technology, Islamic financial services can be accessed by a wider community, including in remote areas. The government and regulators need to provide regulations that support this collaboration without ignoring sharia principles.

2) Investment in Islamic Financial Education

Improving Islamic financial literacy through structured and inclusive education programs is an important long-term investment. This education not only helps people understand the benefits of Islamic financial products, but also

builds their trust in the Islamic financial system. Collaboration with local educational institutions and media can increase the effectiveness of this education program.

3) Strengthening Regulations that Support Innovation

Inclusive and progressive regulations need to be continuously developed to create an environment conducive to innovation. The government must play an active role in supporting dialogue between regulators and Islamic financial industry players to ensure that the regulations implemented not only comply with Islamic principles but also encourage the growth of this sector.

4) Focus on Local Needs

Innovation of Islamic financial products must reflect the specific needs of the Makassar community, such as financing for fishermen, farmers, or MSMEs. By understanding local characteristics, Islamic financial institutions can create relevant solutions that have a direct impact on regional economic growth.

4.1.4 Hypothesis Testing Results / Key Findings

This study did not use hypothesis testing because it employed a qualitative research design. Instead, the study focused on identifying and interpreting key findings obtained from interviews, observations, and documentation analysis. The major findings indicate that innovation, fintech integration, Islamic financial literacy, and adaptive regulation are the main determinants supporting the development of Islamic financial products in Makassar.

4.1.5 Visual Presentation of Results

This study did not use statistical tables, charts, or quantitative figures because the findings were presented narratively in accordance with the qualitative research approach. The presentation of results focused on thematic explanations derived from interview findings, observations, and documentation analysis.

4.2 Research Discussion

4.2.1 Interpretation of Key Findings

The findings demonstrate that innovation has become a strategic necessity for the development of Islamic financial products in Makassar. Innovation

enables Islamic financial institutions to respond to changing market demands, improve competitiveness, and expand financial inclusion. The integration of fintech technology was identified as a significant opportunity for increasing operational efficiency and extending access to Islamic financial services, especially for MSMEs and rural communities. In addition, the study reveals that low levels of Islamic financial literacy remain a major challenge limiting the adoption of Islamic financial products. Adaptive and progressive regulations also emerged as an important factor in supporting sustainable innovation while maintaining compliance with sharia principles.

4.2.2 Comparison with Previous Studies

The findings of this study are consistent with previous studies emphasizing the importance of innovation and technology adoption in the Islamic financial sector. The role of fintech in increasing financial inclusion supports the findings of Beck and Pamuk (2016), who argued that technological innovation can improve accessibility and efficiency in Islamic finance. Similarly, the findings align with Ali and Kumar (2019), who highlighted the importance of fintech integration for reaching underserved communities. Furthermore, the study confirms the argument of Azman and Habibullah (2020) that collaboration among regulators, governments, and financial institutions is essential to encourage innovation in Islamic finance. The findings regarding adaptive regulation also support Haniffa and Hudaib (2018), who emphasized that regulatory flexibility is necessary to sustain innovation while preserving Islamic values.

4.2.3 Theoretical Contributions

This study contributes to the development of innovation theory in the context of Islamic finance by demonstrating that innovation is not only driven by economic competition but also by social and religious considerations. The findings extend existing discussions regarding the integration of fintech and Islamic finance by emphasizing the importance of balancing technological advancement with sharia compliance. In addition, the study enriches the literature on Islamic financial literacy by showing that education and awareness are critical determinants of successful innovation adoption in Islamic financial systems.

4.2.4 Practical and Policy Implications

The findings provide several practical implications for Islamic financial institutions, regulators, and policymakers. First, Islamic banks should strengthen collaboration with fintech companies to improve digital financial services and expand market reach. Second, policymakers and educational institutions should implement structured Islamic financial literacy programs to increase public understanding and trust in Islamic finance. Third, regulators need to establish inclusive and adaptive policies that support innovation while ensuring compliance with Islamic principles. Finally, Islamic financial institutions should design products that address local community needs, such as financing for fishermen, farmers, and MSMEs, to strengthen regional economic development.

4.2.5 Integration with the Research Gap

This study addresses the research gap related to the limited discussion of innovation in Islamic financial products within the local context of Makassar. Previous studies mainly focused on broader national or international perspectives, while this study specifically examines how social, technological, and regulatory factors influence innovation in Makassar. The findings therefore provide a contextual understanding of Islamic financial innovation and demonstrate the importance of local adaptation in developing sustainable Islamic financial products.

4.2.6 Acknowledgement of Study Limitations

This study has several limitations. The research was conducted only in Makassar, which may limit the generalizability of the findings to other regions with different social and economic conditions. In addition, the study relied on qualitative data obtained from interviews, observations, and documentation analysis, which may involve subjective interpretations from participants and researchers. Furthermore, the study focused primarily on innovation and fintech integration, so other factors influencing Islamic financial development may not have been explored comprehensively.

5. Conclusion

5.1 Summary of Key Findings

The results of this study conclude that

innovation in Islamic financial products in Makassar faces significant challenges but also brings great opportunities for sustainable growth and development. Although the sector is still in its early stages of development, there are various strategic steps that can be taken to strengthen its position in the future.

First, the development of innovative sharia financial products needs to be prioritized to meet the needs and preferences of the Makassar community. By utilizing financial technology (fintech), sharia banks can increase service accessibility while increasing operational efficiency. Collaboration with fintech companies can also be a solution to infrastructure and geographic constraints, as well as pave the way for the creation of new products that are more inclusive and relevant.

Second, education and socialization of Islamic finance must be strengthened through a comprehensive and structured approach. Islamic banks need to intensively educate the public about the benefits, mechanisms, and values underlying Islamic financial products. This step will not only reduce public uncertainty, but also increase acceptance and trust in Islamic financial products in Makassar.

Third, adaptive and progressive regulation is a key element to support innovation in this sector. The government and financial authorities must work together with industry players to create a regulatory framework that allows Islamic banks to explore innovation without compromising sharia principles. Flexible regulation will provide space for the development and implementation of new practices more quickly and effectively.

Through these strategic steps, the Islamic financial sector in Makassar is expected to contribute significantly to encouraging financial inclusion, supporting more inclusive economic growth, and empowering society at large. The implementation of this strategy will also strengthen the foundation of the Islamic financial sector, increase its competitiveness at the local level, and open up opportunities to compete at the regional level.

5.2 Theoretical Contributions

This study contributes to the literature on Islamic finance and innovation by extending the

understanding of how technological innovation, public awareness, and regulatory support interact in shaping the development of Islamic financial products at the local level. The findings enrich innovation theory within the context of Islamic finance by emphasizing the importance of integrating fintech solutions with sharia-based financial principles. In addition, this study provides contextual insights into the dynamics of Islamic financial innovation in developing regions, particularly in Makassar, thereby contributing to the broader discourse on sustainable and inclusive financial systems.

5.3 Practical and Policy Implications

The findings of this study provide several practical and policy implications for stakeholders in the Islamic financial sector. Islamic financial institutions are encouraged to develop innovative and inclusive financial products that leverage fintech to improve service accessibility and efficiency. Financial institutions should also intensify educational programs and public outreach initiatives to improve financial literacy and public confidence in Islamic financial products. For policymakers and financial authorities, the study highlights the importance of establishing adaptive and supportive regulatory frameworks that encourage innovation while ensuring compliance with sharia principles. Furthermore, collaboration between government agencies, financial institutions, and fintech companies should be strengthened to accelerate the growth and competitiveness of the Islamic financial sector in Makassar.

5.4 Limitations of the Study

This study is limited to the context of Islamic financial innovation in Makassar, which may restrict the generalizability of the findings to other regions with different economic, social, and technological conditions. In addition, the study focuses primarily on qualitative insights related to innovation, education, and regulation, without incorporating broader quantitative measurements of financial performance or customer behavior. The findings therefore reflect the specific characteristics and conditions of the Islamic financial sector in Makassar during the period of the study.

5.5 Directions for Future Research

Future research is recommended to explore Islamic financial innovation in different regional and national contexts to provide broader comparative insights. Further studies may also employ quantitative or mixed-method approaches to measure the impact of fintech adoption, public financial literacy, and regulatory support on the performance and sustainability of Islamic financial institutions. In addition, future research could examine additional factors such as customer behavior, digital transformation readiness, and strategic collaboration among stakeholders in supporting the long-term development of the Islamic financial sector.

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