

An Axiological Critique of the Phenomenon of “*Ethics Washing*” in Sharia Fintech

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Abstract: The proliferation of Sharia labels and ethical claims in Sharia fintech often amounts to nothing more than a market legitimization strategy without any corresponding implementation of genuine values. This practice is known as “ethics washing.” This study offers an axiological critique of this practice, particularly because closed (black-box) algorithmic systems are deemed to contradict the principles of trustworthiness, justice, and transparency. Using a philosophical-normative approach, this study examines OJK regulations, AI ethics literature, and fintech platform compliance practices. The findings indicate that “ethics washing” creates knowledge asymmetry and undermines the oversight function of the Sharia Supervisory Board (DPS). To address this, the study proposes the *Maqashid* Matrix as an ethical measurement tool that translates religious values into auditable performance indicators, mapping *hifz al-mal* to data security and *hifz al-aql* to algorithmic transparency. This study underscores the need for a shift from formal compliance toward outcomes that are genuinely auditable in the digital realm, and encourages the DPS to develop an understanding of technology so that it not only reviews documents but also oversees the operation of the system. The main contribution of this paper is to offer an ethical audit framework that prevents the reduction of values to mere symbolic compliance.

Keywords: *Sharia Fintech, Ethics washing, Maqashid Al-Shariah, AI Ethics, Sharia Supervisory Board (DPS).*

Introduction

The rapid development of digitalization has had a significant impact on changes in the operational methods of Shariah banking and financing. In particular, artificial intelligence (AI) or algorithms are now used as tools for assessing creditworthiness, market monitoring, and banking risk management (García-Llorente & Olmeda, 2026; OJK, 2022). These changes offer high efficiency, such as faster service, reduced operational costs, real-time auditing, and automated screening systems capable of processing thousands of data points in milliseconds (Khan, 2025; Subqi, 2025).

On the other hand, these advantages bring negative consequences in the form of challenges that must be faced, namely the impact of the crisis on the decision-making process particularly regarding the approval of financing loans. This process has become complex, unclear, and difficult for the general public to understand due to an information asymmetry between technical experts and Sharia supervisors, resulting in the inability of both supervisors and customers to understand the process transparently (Khan, 2025; Regita, 2025). Therefore, given that the lack of transparency in this process is prone to triggering uncertainty (*gharar*), there is a need for a method to assess whether this technological innovation remains in line with Islamic moral values (Aliyu et al., 2017; Nursobah, 2022).

Interestingly, despite the transparency surrounding AI, the marketing aspect is actually relying more and more on the Sharia image. The public tends to have high trust in products with Sharia branding a situation often exploited through Islamic imagery in advertisements and official reports to build a reputation (OJK, 2024a; Schultz et al., 2025). This even extends to identity fraud schemes involving institutions (PASTI, 2026). Unfortunately, these labels often do not reflect actual practices, as Islamic values and morals are not truly embedded in their operational systems (van Maanen, 2022).

The gap between public promises and reality on the ground gives rise to a phenomenon known as “*ethics washing*,” in which companies focus solely on fulfilling the formal aspects of contracts without genuinely integrating the *Maqashid Shariah* dimensions (Andinarianti & Huda, 2025; van Maanen, 2022). Many business models focus solely on formal compliance regarding assets or the prohibition of usury, while setting aside the substantive objectives of Islamic law (Andinarianti & Huda, 2025). As a result, companies cannot be held accountable for their moral responsibilities by citing the complexity of algorithmic code (*black box*) that is difficult to inspect (Khan, 2025), thereby eroding the principles of transparency and justice. The cases of PT Dana Syariah Indonesia (DSI) and Sharia-compliant online lending platforms serve as clear evidence: fictitious projects and weak internal oversight demonstrate that a “Sharia” label does not automatically guarantee the values of trustworthiness and justice in practice (Ibrahim, 2025; OJK, 2025; Polri, 2026; Puspadini, 2025).

In response, recent literature acknowledges that the integration of AI and Big Data offers high efficiency and expands financial inclusion (Azwar et al., 2025; Damanik et al., 2026; Manneh et al., 2025). However, a lack of transparency in implementation has sparked criticism that Sharia fintech initiatives amount to nothing more than “Islamic labeling” or “ethics washing” (Farah et al., 2025; Shalhoob & Babiker, 2025).

The discussion on Islamic banking does not stop here; it consistently emphasizes that the stability of these institutions depends on the integration of moral values into their operations, and the maqashid al-sharia framework offers a foundation that safeguards the public interest (Andinarianti & Huda, 2025; OJK, 2024b). However, its implementation requires more concrete operational guidelines (Shinkafi, Ali, and Choudhury 2017). The absence of such guidelines is reflected in oversight mechanisms that remain manual and administrative: the Sharia Supervisory Board is only able to review formal documents (ex-ante) without the ability to audit the logic of the algorithms running within the system (ex-post) (Prawira & Erniati, 2026), a situation exacerbated by limited technological literacy among members of the Sharia Supervisory Board (Regita, 2025; Said et al., 2025).

Although international literature and Islamic legal studies have developed rapidly, there remains a gap in linking the phenomenon of “*ethics washing*” to the application of the principle of transparency as stipulated in the DSN-MUI fatwa “(DSN-MUI, 2018)”. Previous studies have generally addressed technical compliance or corporate governance separately from digital ethical values (Nursobah 2025). There has been no analysis that thoroughly examines how closed algorithmic systems (black boxes) create knowledge asymmetry and potential uncertainty (*gharar*) that contradict Sharia principles (Elmahjub 2023; Khan 2025).

Based on the gaps outlined above, this study proposes two main research questions. First, how does the practice of “*ethics washing*” occur within Sharia fintech platforms, given that this practice is indicated to erode the values of *amanah* and *‘adl*. Second, to what extent do closed-source (*black box*) algorithms conflict with the principles of transparency and accountability in Islam. The objective of this study is to critique this erosion of (axiological) values. Furthermore, it offers the maqashid framework as a verifiable ethical benchmark; this approach aligns with global principles regarding trustworthy, fair, and transparent AI (OECD 2024).

This study employs a qualitative approach with a philosophical-normative framework. This methodology enables an in-depth examination of the platform’s ethical claims in comparison to the operational logic of its algorithms. The study’s primary contribution lies in the development of a maqashid matrix that translates abstract principles into ethically-oriented performance indicators that can be technically audited. This framework is designed to ensure that Sharia values such as the protection of property (*Hifz al-mal*) and justice (*‘adl*) are truly internalized in the algorithm code (Nursobah 2025).

The results of this analysis are expected to provide a theoretical foundation for the development of financial technology governance oriented toward the public good. In practical terms, these findings can serve as a reference for Sharia supervisors in evaluating the alignment of digital systems with the fundamental principles of *muamalah*. The remainder of this article will outline the theoretical framework, analytical methods, a critical discussion of the research questions, and policy recommendations. The discussion aims to produce a synthesis that links axiological integrity with operational transparency (Khan 2025).

Literature Review

1. Ethics Washing in Digital Fintech

As mentioned in the introduction, the phenomenon of ethics washing is gaining momentum alongside the rise of digital ethics washing, in which technology companies not only “wash” ethics but also use them as a strategic tool to evade strict regulatory oversight (Schultz et al. 2025). In the context of Sharia fintech, the practice of ethics washing has evolved into “Sharia washing,” involving the use of religious labels and symbols to build public trust without being matched by genuine compliance with the principles of *muamalah*. The default case involving PT Dana Syariah Indonesia (DSI) and the proliferation of illegal online loans labeled as Sharia-compliant serve as clear evidence of how the identities of official institutions and narratives of Sharia compliance are exploited to attract public interest.

Recent research shows that the growth of fintech has actually widened the gap between corporate social responsibility (CSR) reports and actual corporate performance. Ironically, this gap fuels violations and excessive risk-taking behaviour, and creates loopholes for identity theft, non-transparent investment offers, and even business models that contradict Islamic principles. All of these violations can be concealed behind the “Sharia-compliant” label featured in advertisements but not actually implemented in practice (PASTI 2026; Regita 2025).

2. Axiological Criticism of Black-Box Algorithms

When examining Islamic literature, from an axiological perspective, transparency and justice are core values in Islamic finance. However, the emergence of artificial intelligence in Sharia-compliant fintech poses a major challenge in the form of algorithmic opacity (black box), where these algorithmic systems cannot be explained and are difficult to understand, let alone audit. As a result, when decisions are generated, the basis for those assessments is not easily discernible (Tariquallah Khan 2023). This situation creates an information gap between technology developers, the Sharia Supervisory Board (SSB), and customers. In fact, the SSB often lacks sufficient access to understand how the system makes these decisions.

The lack of transparency arising from algorithmic (black-box) systems constitutes a form of *gharar* (uncertainty) that is prohibited under Islamic principles. This uncertainty gives rise to the risk that AI might inadvertently optimize profits through hidden functions that could involve elements of *riba* or data bias that discriminates against certain social groups (Khan 2025).

3. *Maqashid al-shariah* in Sharia Fintech

The literature on Sharia fintech indicates that compliance with Sharia principles cannot be demonstrated solely by the use of appropriate contracts or the absence of *riba*. (Nursobah 2025) explains that the success of implementing moral values can be assessed by how a system functions. In this context, *maqashid al-shariah* is used as a tool to assess whether digital financial services truly provide public benefit, protect users, and foster justice in practice. A study based on 397 Scopus-indexed publications (2019-2023) conducted by Ahmad et al. (2023) found that *maqashid* is no longer understood merely as a theoretical ethical compass but has shifted to become a normative and epistemological foundation that simultaneously integrates Sharia, economics, and technology (Affandi and Ilyas 2025).

In the context of fintech, the principle of *hifz al-mal* is associated with fund security, data protection, and transaction transparency, while the concept of *maslahah* is used to assess the impact of technology on fairness, transparency, and consumer protection. Hasan and Aliyu explain that the values of *amanah*, justice, and transparency have not yet been fully integrated into the digital systems of financial institutions (Hassan and Aliyu 2018). Therefore, *maqashid al-shariah* is used as a framework to assess the alignment between shariah claims and fintech operational practices in a more substantive manner.

4. Governance and Algorithm Audit Models in Shariah-Compliant Fintech

Recent literature highlights the urgency of implementing a Dual Governance Framework in Sharia fintech to bridge the information asymmetry between complex algorithmic logic and substantive Sharia compliance (Khan 2025). This model proposes the integration of AI governance capable of continuously monitoring potential compliance issues, through manual oversight by the Sharia Supervisory Board, which has thus far been purely administrative in nature.

In line with this, (Azwar et al. 2025) found in their Scopus literature review that AI has been positioned as a strategic lever for financial inclusion and services oriented toward *maqashid al-shariah*. Meanwhile, algorithmic auditing in Shariah fintech has begun to be proposed as a verification tool to ensure that *maqashid* values are integrated into black-box systems through bias detection, adversarial testing, and Explainable AI (XAI), so that decisions can be rationally explained to customers (Nursobah 2022).

Unlike the AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) standards, which focus on formal transactional compliance, and unlike the, which follows the secular and value-neutral principles of the OECD's AI, the *maqashid* matrix proposed in this study integrates Islamic axiological dimensions with auditable technical indicators. This matrix also goes beyond the principle-based framework of the IFSB (Islamic Financial Services Board) by providing specific and measurable parameters. Thus, the *maqashid* matrix offers a bridge between Islamic ethical norms and technological audit practices, which have long been separate.

Although these various studies have provided a strong conceptual foundation, they remain at the normative level and have not yet elaborated on how abstract *maqashid* principles such as *hifz al-mal*, 'adl, and *Amanah* can be translated into technical indicators that can be directly audited by algorithmic code. Existing models remain general in nature and do not yet provide operational tools that enable Sharia supervisors or independent auditors to assess whether a digital system is truly fair and substantively transparent. It is this gap that has driven the development of the Maqashid Matrix as a measurable ethical audit framework capable of transforming moral claims into verified technical evidence in every automated transaction process.

Theoretical Framework

1. Deontological Ethics

In Immanuel Kant's theory of deontological ethics, he offers a philosophical foundation for evaluating the phenomenon of "ethics washing" in Sharia fintech; this framework places human dignity at the center of moral consideration (Morley et al. 2021; Thorpe 2024). Kant teaches that human beings must be respected, not merely treated as means to achieve profit (McDonald 2023). In Sharia fintech, black-box systems often treat customers as passive objects, without giving them the right to know the reasons behind the decisions made. As a result, customers' reasoning and freedom of thought are sidelined. (Brand 2023) emphasizes that the obligation to provide explainable AI (XAI) stems from the moral imperative to uphold the dignity of every individual in financial services.

Kant's fundamental principle also requires that every rule be universally applicable. If a platform keeps its credit scoring mechanisms secret, such a rule cannot be applied to everyone because it would leave customers in a state of constant uncertainty. (Novelli, Taddeo, and Floridi 2023) states that AI accountability can only be achieved through transparency that can be verified by an independent party. In Islam, this aligns with the obligation of *al-bayan*, or clear explanation. Furthermore, consent (*ridha*) is only valid if given with full understanding of the risks, not in a state of uncertainty. (Bidan et al. 2024) emphasizes that the Kantian framework is highly relevant for measuring AI transparency due to its universal nature.

2. The Theory of Information Asymmetry

Akerlof's (1970) theory of information asymmetry explains how unequal access to information between two parties can lead to adverse selection (George A. Akerlof 1970). Islamic law strictly prohibits the practice of concealing information in all transactions because it leads to *gharar* (uncertainty) and *tadlis* (concealment of defects). These two prohibitions affirm that a transaction is valid only if it is based on '*an taradin*', that is, consent arising from a full understanding of all material information.

In Sharia fintech, the opacity of black-box algorithms indicates the presence of hidden loopholes involving *tadlis* and *gharar* (Koswara). Because the system is non-transparent and creates extreme information asymmetry between platform developers and customers, customers are unable to accurately assess the risks and the basis for decisions that affect their financial interests (Ullah). Consequently, the digital consent given by customers no longer meets the requirement of '*an taradin*' because it stems from deliberate ignorance. Thus, algorithmic opacity not only violates business ethics but also invalidates the contract under Sharia law.

3. Maqashid Al-Shariah

Jasser Auda offers a significant breakthrough by interpreting *maqashid al-shariah* as a dynamic, open, and interconnected system. This breakthrough is introduced as a new methodology rooted in systems theory for analyzing the philosophy and legal theory of Islamic law. This approach shifts the *maqashid* paradigm from merely protection and preservation (*hifz*) toward the development and enforcement of human rights. Auda formulates six systemic features that characterize his thought, namely: cognition, wholeness, openness, interrelated hierarchy, multidimensionality, and purposefulness (Auda 2008).

Although the Auda system approach is the primary focus, it is important to note that the *maqashid* tradition has deep roots in the thought of al-Ghazali, who formulated the *al-daruriyyat al-khams*, which was later developed by al-Shatibi through the concept of *maqashid* as the essence of Sharia. Contemporary debates, such as those raised by Kamali (2014) and Chapra (2008), further enrich this framework by emphasizing the dimensions of distributive justice and human development.

This approach explicitly rejects compliance based solely on formalities and demands that every fintech policy and product be evaluated based on its contribution to human flourishing, the reduction of harm, and equitable development. Thus, the Auda system approach serves as the philosophical foundation for the creation of the *Maqashid* Matrix as a comprehensive ethical measurement tool to ensure that the noble values of Sharia are truly realized in every digital process.

Method

This study is a qualitative research project employing a philosophical-normative approach. This approach was chosen because the author not only describes the phenomenon of ethics washing but also critiques the erosion of values in Sharia fintech and reconstructs the *Maqashid* Matrix as a measurable tool. The material object is the phenomenon of "*ethics washing*" in Sharia fintech and the regulatory architecture governing it (van Maanen 2022; OECD 2024). The formal object is an axiological critique of algorithmic opacity ("black box"). To analyze these objects, this study integrates three main theoretical frameworks: (1) Immanuel Kant's deontological ethics to assess violations of customer autonomy and dignity resulting from closed systems; (2) Akerlof's theory of information asymmetry to analyze the practices of *gharar* and structural *tadlis* in digital transactions; and (3) Jasser Auda's *maqashid*-based approach to formulate holistic solutions that emphasize transparency, multidimensionality, and a focus on the public interest.

The research data was obtained through a documentary study consisting of primary and secondary data. The primary data consists of official regulatory documents (POJK, DSN-MUI fatwas), which were the direct objects of analysis. The secondary data includes academic literature indexed in reputable journals, books, and reports from international organizations (OECD, IFG) and national institutions (OJK, Satgas PASTI). In addition, the author also utilized supporting empirical illustrations in the form of case reports and investment findings related to PT Dana Syariah Indonesia (DSI) and illegal Sharia-based online lending as empirical examples. All data were selected based on their relevance to the issues of algorithm transparency, digital accountability, and Sharia compliance (van Maanen 2022; OECD 2024; Schultz et al. 2025).

Data analysis was conducted using the *critical content analysis* technique (Krippendorff 2022) , which was operationalized in this study through four steps: (1) an initial review of all regulatory documents and literature to identify key themes; (2) thematic coding of ethical claims, compliance parameters, and transparency indicators; (3) a comparative analysis of regulations and literature against on-the-ground realities drawn from case studies and reports, (4) the fourth stage involves interpreting the identified gaps using the *maqashid* framework and information asymmetry theory. Furthermore, the researcher applies an interdisciplinary approach that combines the three theoretical frameworks previously outlined by the author; this approach involves three stages of integration: (1) a conceptual dialogue between AI ethics s (Elmahjub 2023; OECD 2024) , and Islamic ethics (*Maqashid*); (2) a structural analogy between algorithmic logic and the logic of *fiqh al-muamalah*; and (3) a normative reconstruction that links regulations (POJK) with the principles of *maqashid* (Auda 2008; Elmahjub 2023; Khan 2025)

The resulting matrix is a conceptual construct developed through a synthesis of the literature and has not yet undergone empirical testing. Therefore, this study does not claim the operational validity of the instrument but rather offers a normative framework for evaluating the potential for “*ethics washing*” in Sharia fintech. This methodological stance aligns with the nature of conceptual research, which focuses on developing a theoretical framework through philosophical argumentation and literature integration, rather than on testing the effectiveness of the instrument in the field (Jaakkola 2020; van Maanen 2022). Further testing using the Delphi method, expert judgment, or implementation in real-world cases is recommended as a topic for future research.

Results and Discussion

1. A Critical Analysis of Algorithmic Opacity

This phenomenon can be illustrated through the following hypothetical case: a customer wishes to apply for financing for their small business and has already completed all the required documents and met the formal requirements. However, due to this opaque digital system, the loan application is rejected without adequate explanation, as the reasons behind the decision are tightly locked within complex computer code that is impenetrable to the layperson’s understanding. This incident serves as evidence that when technology becomes the sole determinant of decisions without the possibility of audit, the foundation of trust that has long been upheld in Islamic commerce begins to erode from its very roots.

In the Sharia fintech ecosystem, black-box artificial intelligence systems operate through highly complex artificial neural networks (Khan 2025) . This complexity is not merely a technical obstacle; rather, it has eliminated the rational basis for every transaction (Asep Koswara, Amin 2026) . Customers no longer interact with bank tellers whom they can ask questions and discuss matters with, but rather with a computer program that issues decisions automatically—quickly and efficiently, yet difficult to trace (Damanik et al. 2026) . It is this lack of transparency that contradicts the fundamental principle of Sharia: that every transaction must be based on transparency (*al-bayan*) and clarity. Without these two elements, financial interactions lose their humanistic dimension.

This non-transparent system runs counter to universal ethical principles as well as Islamic norms. Ethically speaking, Immanuel Kant, through his categorical imperative, reminds us that human beings must not be treated merely as a means to an end, but must always be respected as an end in themselves (Nouman et al. 2021) . When customers are forced to accept financial decisions without access to the reasoning behind them, their status as rational agents is undermined (Manneh et al. 2025) . Humans are treated as objects of data processing, not as equal partners. (Novelli, Taddeo, and Floridi 2024) emphasizes that the obligation to provide explainable AI systems stems from the moral imperative to uphold human dignity, particularly in public services that concern the livelihoods of the broader community. In Islam, this requirement aligns with the obligation of *al-bayan*, whereby every party to a transaction is required to provide a clear and complete explanation to the other party (Nouman et al. 2021) .

Akerlof’s (1970) theory of information asymmetry elegantly explains how, when one party has more information and the other does not, the market will be flooded with “bad goods” (adverse selection) (Akerlof 1970) . In fintech, customers are the party with the least knowledge; they do not know which variables are being evaluated, what their weightings are, or whether there are any biases that might be detrimental to them (Fitri and Pratama 2022) . This lack of clarity is no longer merely a business risk but has become a veiled form of *gharar* that is deliberately maintained. Meanwhile, *tadlis* occurs when a platform hides the logic of its algorithms behind a veil of trade secrets, even though this information is highly material to customers’ decision-making (Nursobah 2025) .

Furthermore, this inequality of knowledge nullifies one of the most fundamental prerequisites in a Sharia contract: ‘*an taradin*, which is consent arising from complete knowledge and mutual understanding (mutual consent based on knowledge) (Asep Koswara, Amin 2026; Fitri and Pratama 2022) . The principle of *usul al-fiqh* states, “*Man La Yudriku Kulla Sy-Syai’ La Yaskuthu Kulla Sy-Syai’*” whoever does not understand the full essence

of a matter cannot validly consent to it (Az-Zarqa 2004) . Consent given by a customer without understanding why they are or are not eligible to receive funds is, in essence, merely superficial consent. It stems from coercion, not from sincere and informed willingness (Elmahjub 2023) . Herein lies the greatest irony: technology that is supposed to facilitate access to finance has instead created barriers that separate customers from fair transactions.

This practice clearly violates the principle of *Al-Yaqin La Yuzalu Bisyy-Syakk* certainty cannot be dispelled by doubt. When doubt (*syakk*) infiltrates the transaction mechanism due to hidden computational logic, the validity of the contract claimed to be “Sharia-compliant” is called into question (Manneh et al. 2025) . Administrative certification without algorithmic transparency amounts to superficial compliance; it provides false assurance at the outset but ultimately has the potential to lead to a decline in public trust and significant financial losses (Harcourt 2026) . This reality feels increasingly urgent when considering major cases that have shaken the industry as will be further analyzed in the next section where the *Maqashid* Matrix will be used to specifically diagnose the location of a platform’s systemic failures.

2. Operationalizing the Maqashid Matrix as a Measurement Tool

The previous discussion showed that black-box systems contradict the principles of *al-bayan* and “*an taradin*.” The next challenge is how to measure abstract concepts such as justice or *Amanah*, and to ensure that the noble values of Sharia are present in the algorithm code, not merely in advertisements and banners. It is this urgency that has led to the creation of the *Maqashid* Matrix as an effort to translate religious values into indicators that can be examined and tested.

However, before delving deeper, it is necessary to clarify that of the five objectives of protection in the *maqashid* (*al-daruriyyat al-khams*), the author has selected the three most relevant to algorithmic risks: *hifz al-mal* (protection of property), *hifz al-‘aql* (protection of reason), and *hifz al-din* (protection of religion) (Shahrul et al. 2021) . Meanwhile, *hifz al-nafs* (protection of life) and *hifz al-nasl* (protection of progeny), although very important, have a more indirect impact on fintech (Syarifuddin 2021) . These two principles emerge as secondary consequences, not as primary risks directly generated by algorithmic mechanisms (Auda 2008; Elmahjub 2023) . Focusing on these three dimensions allows us to develop precise and measurable indicators without losing sight of the underlying philosophical essence.

Hifz al-mal was chosen because the most significant risk in fintech involves customers’ money and data (Ibtissam 2026; Marwah, Sapa, and Syatar 2025). These threats include loss of funds, misuse of personal data, discrimination in credit scoring, and automated decisions that could cause economic harm (Andinarianti and Huda 2025; Muhammad and Nissa 2020) . Second, *hifz al-‘aql* becomes crucial because black-box systems prevent customers from understanding, evaluating, or verifying the decisions made (Regita 2025) . In the literature on AI ethics, transparency and accountability are viewed as key prerequisites for protecting human decision-making capacity (Morley et al. 2021). Third, *hifz al-din* serves as a parameter for assessing whether claims of Sharia compliance are authentic or merely “ethics washing.” This principle ensures that religious symbols are not exploited without the implementation of substantive values (Harcourt 2026; Ibtissam 2026) .

Based on these three dimensions, the author has developed the *Maqashid* Matrix, presented in Table 1. This matrix is designed to transform moral declarations which have thus far remained merely institutional narratives into parameters that can be independently verified. In other words, it is no longer sufficient to merely promise ethics; it must be demonstrable

Table 1. Proposed Operationalization of the Maqashid Principles for Auditing Sharia Fintech Platforms

<i>Maqashid</i> Principles	Protection Dimensions	Risk of “Ethics Washing”	Audit Indicators	Conceptual Foundation
<i>Hifz al-mal</i>	Asset and Data Protection	Data breaches, credit bias	Requirement to provide an Algorithmic Impact Assessment (AIA) verified by an independent IT auditor, as well as a report on demographic-based credit rejection rates to detect discrimination	(Elmahjub 2023; Khan 2025)
<i>Hifz Al-Aql</i>	The Right to Understand System Decisions	Black Box Algorithm	Availability of an “Algorithm Fact Sheet” in plain language that must be provided to customers prior to the contract, explaining the three main variables that determine the decision, algorithm documentation	(García-Llorente and Olmeda 2026; Nursobah 2025)

<i>Hifz al-Din</i>	Sharia Compliance	Sharia label without substance	Filtering for halal underlying assets (AI screening), contract logic audit (to prevent the automation of invalid or gambling-related contracts), DPS review	(Elmahjub 2023; Hassan and Aliyu 2018)
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Source: compiled by the author based on a literature synthesis of *maqashid al-shariah* (Elmahjub 2023; Shinkafi et al. 2017) , algorithm governance (García-Llorente and Olmeda 2026; OECD 2024) , and Indonesian Shariah fintech regulations (OJK 2023, 2024a) .

Methodology Note: The indicators in this table are the result of the author’s synthesis linking normative concepts (columns 1–2) with existing technology audit practices (column 3). Each indicator was synthesized to be testable through repeatable procedures, independent of the auditor’s subjective interpretation (Ahmad et al. 2025) . For example, the principle of asset protection (*hifz al-mal*) is translated into data security standards and mechanisms to prevent bias in scoring systems. These indicators include encryption protocols and algorithmic discrimination detection, which can be tested through penetration testing and fairness metric analysis (OECD 2024) . This approach ensures that asset protection is not merely a claim, but is actually measurable through technical evidence.

Similarly, the principle of protecting reason (*hifz al-‘aql*) is operationalized through the obligation to provide explanation mechanisms that users can understand (explainable AI). This indicator requires the existence of documentation of the explanation system and risk education materials that are easily accessible to customers. Verification is conducted through periodic reviews of the documentation and user comprehension tests (García-Llorente and Olmeda 2026) . In this way, transparency is not only technically available but also meaningful to service recipients (Mattori and Rusdiana 2023) . Without this adaptation of language and understanding, information transparency will merely be an empty formality that fails to empower.

The *Maqashid* Matrix proposed in this study is in line with the mandate of POJK No. 3 of 2024 on technological innovation in the financial sector (ITSK) and POJK No. 26 of 2024, which require transparency of information and periodic reporting to the (OJK 2024c, 2024b) . This *Maqashid* Matrix is presented to strengthen Sharia governance so that fintech companies are not only compliant in a legal-formal sense but also substantively, with the goal of social justice (Saïd et al. 2025) . To test this, the author uses the *Maqashid* Matrix to analyze the high-profile case of PT Dana Syariah Indonesia (DSI). In early 2026, this platform shocked the public with news of mass defaults and indications of fraud involving fictitious projects (OJK 2025; Polri 2026) . Ironically, DSI had long cultivated an image as a safe and trustworthy sharia-compliant financing platform. This is where the *Maqashid* Matrix demonstrates its effectiveness as a diagnostic tool.

In the dimension of *hifz al-mal* (protection of assets), DSI’s failure lies in the collapse of the verification function for underlying assets. The matrix requires proof of the existence and halal status of the underlying assets that are the subject of financing. However, DSI failed to provide audits whether algorithmic or manual of the disbursement of funds. Fictitious projects were allowed to operate, and customer funds flowed to inappropriate destinations without clear accountability. This lack of asset verification reduces Sharia contracts to nothing more than illusory bookkeeping, which directly undermines the protection of users’ assets.

In the dimension of *hifz al-‘aql* (protection of reason/transparency), DSI has committed a violation through the lack of transparency in its risk reporting to lenders. DSI’s financial systems and reports operate as a black box that conceals its true risk profile. Investors never receive a rational explanation let alone one in easily understandable language regarding where their funds are actually allocated. From an axiological perspective, this lack of transparency undermines users’ rational capacity to make decisions based on complete information. This constitutes a clear violation of the principle of al-bayan, which requires that every transaction be clearly explained.

In the dimension of *hifz al-din* (protection of religion/compliance), the DSI case is the purest manifestation of “ethics washing” or, more accurately, “sharia washing.” The “sharia” label is used as a powerful marketing shield, while the mechanisms for filtering halal assets and oversight by the Sharia Supervisory Board are limited to initial (ex-ante) documentary formalities. Without periodic audits of the contractual logic operating within the system (ex-post), practices rife with *gharar* and indications of fraud have successfully hidden behind a narrative of compliance. The Sharia Supervisory Board, which should serve as the last bastion of protection for the faithful, has instead become trapped in a routine of rubber-stamping without a deep understanding of the technologies it oversees.

Through this case study, the *Maqashid* Matrix has proven its effectiveness as a precise measurement tool. The DSI’s failure underscores that administrative compliance without substantive verification based on technical-axiological indicators is an inevitable loophole for sharia washing. It confirms that the DPS can no longer merely serve as a document certifier. They must transform into auditors who periodically test the indicators of *hifz al-mal*, *hifz al-‘aql*, and *hifz al-din* within digital systems. Without this transformation, the exploitation of the public’s trust in the name of innovation will continue to recur.

This matrix serves as a bridge that coherently connects the philosophy of values with the practice of technical audits (Nursobah 2022). The flexibility of the framework allows for adaptation to technological developments without sacrificing the consistency of principles. In other words, ethics is no longer a passive declaration that is merely stated, but rather a performance standard that is actively monitored and evaluated.

3. Analysis of Implications and Digital Governance

The proposed verification mechanism through the *Maqashid* Matrix ensures that ethical claims can be converted into accountable audit findings (Mutmainah et al. 2024). The parameters of data security, availability of explanations, and value alignment serve as the variables measured in the audit cycle. This process transforms ambiguous marketing narratives into standardized performance reports. Functional transparency replaces administrative compliance as the primary benchmark of legitimacy.

Interestingly, the implementation of this Matrix naturally aligns with existing regulatory mandates, such as POJK No. 2/2024, which emphasizes technology risk management and operational transparency (OJK 2024a). This framework provides technical language that is understandable to both Sharia supervisors and digital governance experts. The synchronization of audit parameters enables harmonization between international standards on artificial intelligence ethics and applicable *muamalah* principles. This alignment not only reduces compliance costs but also strengthens the system's resilience against evolving ethical risks.

However, transformation requires time and a thorough process. Sharia Supervisory Boards need to gradually strengthen their technical analysis capabilities (Mutmainah et al. 2024). Measurable indicators enable functional oversight without requiring every member of the Sharia Supervisory Board to master advanced programming. Most importantly, the synergy between Sharia literacy and an understanding of audit metrics creates a sustainable oversight mechanism that remains relevant to the challenges of our time. This participatory approach ensures that fundamental values are not overlooked amid the complexity of ever-evolving algorithms.

Consistent application of the Matrix will transform the competitive landscape of the digital finance industry: from competition based on symbolic claims toward substantive verification (Elmahjub 2023). Institutions capable of demonstrating algorithmic alignment with the *maqashid* principles will gain more stable market trust. This paradigm shift compels technology developers to internalize ethical considerations from the early design phases of their systems (Floridi et al. 2018). Socially responsible innovation is becoming a non-negotiable new standard.

Ultimately, the operationalization of abstract values through technical indicators demonstrates that ethical accountability can be achieved without sacrificing operational efficiency (Nursobah 2025). A structured verification framework ensures that Sharia principles are not merely a supplementary narrative, but rather measurable operational parameters. The transition toward an audit based on tangible public benefit does indeed require consistent institutional commitment and adaptive regulatory support. However, without this step, claims of compliance will always be vulnerable to distortion, and the practice of "ethics washing" will continue to be a risk that follows every step of Sharia fintech innovation.

Conclusion

This study concludes that the phenomenon of "*ethics washing*" in Sharia fintech is a manifestation of a shift in the hierarchy of values, in which the substantive principles of *amanah* and '*adl*' are reduced to mere instruments of market legitimization. An empirical study of the PT DSI platform's default case confirms that administrative compliance without algorithmic verification creates loopholes for practices that undermine user welfare. Furthermore, algorithmic opacity (*black-box*) is structurally at odds with Islam's axiological imperative of transparency. This system's opacity not only creates information asymmetry but specifically violates the principle of *al-bayan* (the obligation of comprehensive explanation) and undermines the requirement of '*an taraḍin*' (knowledge-based consent) in digital *muamalah*, which ultimately paralyzes the substantive verification function of the Sharia Supervisory Board (DPS).

Theoretically, this article proposes a paradigm shift in oversight from *compliance checklists* toward *maqashid-based* outcome audits using the *Maqashid* Matrix. This matrix translates abstract values into auditable Ethical Performance Indicators (EPIs), such as mapping *hiḏ al-mal* to data security and *hiḏ al-'aql* to *explainable AI*. In practice, implementing this Matrix requires synchronization between POJK No. 21/2023 and POJK No. 2/2024, as well as a reconfiguration of the DPS's role from an administrative verifier to a technology-savvy axiological auditor. To facilitate this transition, the Financial Services Authority (OJK) is recommended to establish a Sharia AI Governance Regulatory *Sandbox*. This limited testing environment will allow regulators and the industry to measure the validity of the *Maqashid* Matrix and EPI on specific fintech platforms before they are adopted as national compliance standards, ensuring that technological innovation proceeds hand-in-hand with the preservation of the public interest.

As a conceptual-philosophical study, this research deliberately limits itself to conceptual-philosophical constructs to establish a solid theoretical foundation, using the DSI case only as a brief illustration. Therefore, further research is recommended to test the reliability of the EPI indicators through a *mixed-methods* approach,

such as a Delphi test with DPS experts and regulators, or by testing them empirically on a broader portfolio of Sharia fintech platforms.

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