

## Asymmetric Information in the Determination of Risk in Islamic Peer-to-Peer Lending: A Fiqh Muamalat Perspective

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### Abstract

Peer-to-peer lending can help people achieve goals such as reducing poverty and achieving sustainable economic growth. This research aims to analyze the impact of asymmetric information on risk determination in Syariah-compliant P2P lending from the perspective of Fiqh Muamalah. The study uses normative legal research to analyze Islamic legal principles and relevant laws to understand how fiqh muamalah addresses asymmetric information in P2P lending risk determination. The study reveals that asymmetric information in P2P lending poses significant risks, including adverse selection and moral hazard, both of which contradict Islamic financial principles. Fiqh muamalah emphasizes transparency and fairness in transactions and offers solutions through mechanisms such as enhanced disclosure and Syariah-compliant contracts to mitigate these risks. By promoting transparency and ethical financial practices, this research contributes to the stability and growth of the Islamic financial sector and sustainable economic development. Implementing these measures is expected to enhance Syariah financial inclusion and strengthen Indonesia's Islamic economic ecosystem.

**Keywords:** *Fiqh Muamalah; Asymmetric Information; Peer to Peer Lending; Risk Determination; Islamic Finance.*

Received: 2025-02-24  
Accepted: 2025-06-28  
Published: 2025-06-30

### Abstrak

Peer to Peer (P2P) Lending syariah dapat berperan dalam mendukung program Tujuan Pembangunan Berkelanjutan (SDGs) dengan memfasilitasi akses ke pembiayaan yang lebih inklusif dan adil. Penelitian ini bertujuan untuk menganalisis dampak informasi asimetris dalam penentuan risiko pada P2P lending syariah dari perspektif fiqh muamalah. Penelitian ini menggunakan metode penelitian hukum normatif dengan menganalisis prinsip-prinsip hukum Islam dan peraturan terkait untuk memahami bagaimana fiqh muamalah menangani informasi asimetris dalam penentuan risiko pada P2P lending. Studi ini menemukan bahwa informasi asimetris dalam P2P lending menimbulkan risiko signifikan, seperti adverse selection dan moral hazard, yang bertentangan dengan prinsip-prinsip keuangan Islam. Fiqh muamalah menekankan transparansi dan keadilan dalam transaksi, serta menawarkan solusi melalui mekanisme seperti peningkatan keterbukaan informasi dan kontrak yang sesuai syariah untuk mengurangi risiko tersebut. Dengan mendorong transparansi dan praktik keuangan yang etis, penelitian ini berkontribusi terhadap stabilitas dan pertumbuhan sektor keuangan Islam, serta mendorong pembangunan ekonomi yang berkelanjutan. Penerapan langkah-langkah ini diharapkan dapat meningkatkan inklusi keuangan syariah dan memperkuat ekosistem ekonomi Islam di Indonesia.

**Kata kunci:** *Fiqh Muamalah; Informasi Asimetris; Peer to Peer Lending; Penentuan Risiko; Keuangan Islam.*

## Introduction

Peer-to-peer (P2P) Sharia lending has developed rapidly as part of the digital economy, especially in countries with large Muslim populations, such as Indonesia. These platforms have emerged as an alternative solution to financing problems, particularly for micro, small, and medium-sized enterprises (MSMEs) that often cannot access capital from traditional banks. In the context of Sharia law, P2P lending is based on Islamic principles that avoid *riba* (interest), *gharar* (uncertainty), and *maisir* (speculation). This makes it an attractive option for consumers who want to ensure their financial transactions align with their religious values. Applying *maqashid sharia* to P2P lending provides significant benefits to society, particularly by meeting economic needs in a sustainable manner.<sup>1</sup>

A lack of understanding of Sharia P2P lending remains a major obstacle for MSMEs in adopting this technology. However, with proper training and education, this platform's potential can be maximized<sup>2</sup> Sharia P2P lending also supports the Sustainable Development Goals (SDGs) program by providing access to more inclusive and equitable financing. The development of Sharia fintech, including P2P lending, can help achieve SDG goals such as poverty reduction and sustainable economic growth.<sup>3</sup> Overall, Sharia P2P lending encourages financial inclusion, provides a transparent financing alternative in accordance with Sharia values, and plays an important role in supporting sustainable economic growth.

Asymmetric information poses a fundamental challenge to financial transactions, especially on peer-to-peer (P2P) lending platforms. This concept arises when one party in a transaction has more or better information than the other party, which can lead to issues such as moral hazard and adverse

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<sup>1</sup> Abdulloh Munir, "Peer to Peer Lending Analysis of Sharia Maqashid Perspective," *Qawānīn Journal of Economic Syaria Law* 7, No. 1 (2023): 34–67, <https://doi.org/10.30762/qaw.v7i1.231>.

<sup>2</sup> Hanifiyah Yuliatul Hijriah et al., "Increasing Smes Business Value Through Sharia Peer to Peer Lending Accessibility Education," *Jurnal Layanan Masyarakat (Journal of Public Services)* 7, No. 2 (2023): 208–19, <https://doi.org/10.20473/jlm.v7i2.2023.208-219>.

<sup>3</sup> Trimulato Trimulato, M. Cholil Nafis, and Euis Amalia, "The Role Sharia Fintech Support Sustainable Development Goals Program (SDGs)," *Jurnal Ilmiah Ekonomi Islam* 8, No. 1 (2022): 251, <https://doi.org/10.29040/jiei.v8i1.3911>.

selection. In P2P lending, for example, Wei et al. lenders typically have less information about borrowers' creditworthiness than traditional financial institutions do, which makes it difficult to accurately assess the risk of default.

Several studies emphasize the impact of asymmetric information on P2P lending. For example, Wei et al. note that investors are at a disadvantage due to information gaps.<sup>4</sup> These gaps can lead to poor loan performance if they are not properly mitigated. To counter this, platforms often employ strategies such as credit scoring models. For instance,<sup>5</sup> propose using advanced machine learning techniques to better predict defaults by analyzing both hard and soft information about borrowers.

Moreover, Cummins et al. explore how disclosure mechanisms can help minimize the risks associated with information asymmetries in peer-to-peer P2P lending. By providing more transparent, verifiable data about borrowers, platforms can help investors make better-informed decisions, and reduce the adverse effects of information asymmetry.<sup>6</sup> In conclusion, although asymmetric information poses significant risks in P2P lending, platforms and advanced analytical models are evolving to mitigate these issues by improving transparency and predictive accuracy. This fosters a more balanced marketplace.

In the context of fiqh muamalah, the principles of justice and transparency are critical to ensuring that contracts and financial transactions align with Islamic values. According to Islamic jurisprudence, contracts (akad) must be based on mutual consent, clarity, and avoidance of elements such as gharar (excessive uncertainty) and riba (usury), as these can lead to injustice. Islamic law requires that all parties involved in a contract have access to

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<sup>4</sup> Xinyuan Wei, Bo Yu, and Yao Liu, "Assessing Information Asymmetry in Peer-to-Peer Lending by Default Prediction from Investors' Perspective," *Symmetry* 12, No. 6 (2020): 935, <https://doi.org/10.3390/sym12060935>.

<sup>5</sup> Yufei Xia et al., "Predicting Loan Default in Peer-to-Peer Lending Using Narrative Data," *Journal of Forecasting* 39, No. 2 (2020): 260–80, <https://doi.org/10.1002/for.2625>.

<sup>6</sup> Mark Cummins et al., "Addressing Information Asymmetries in Online Peer-to-Peer Lending," in *Palgrave Studies in Digital Business and Enabling Technologies*, 2019, 15–31, [https://doi.org/10.1007/978-3-030-02330-0\\_2](https://doi.org/10.1007/978-3-030-02330-0_2).

complete and clear information about its terms and conditions to prevent exploitation.

According to Soualhi emphasizes that justice and transparency are essential components of maqasid al-Shariah, the higher objectives of Islamic law, especially, in the context of Islamic finance contracts. This involves ensuring the fair distribution of rights and obligations and promoting trust between the contracting parties by providing them with accurate and complete information.<sup>7</sup>

Moreover, Prawiro discovered that transparent contracts directly impact the ethical and religious behavior of those involved. Transparent and just contracts foster an environment of trust and compliance with Islamic teachings. This strengthens the contractual relationship and ensures that transactions are free from exploitation or deception.<sup>8</sup> In conclusion, justice and transparency are fundamental to the ethical execution of contracts in Islamic finance. They ensure fairness and mutual benefit while aligning with the core objectives of Islamic law: safeguarding human well-being and preventing harm.

### Research Methods

This study employs normative legal research,<sup>9</sup> focusing on the examination of legal principles, Islamic jurisprudence, and relevant regulations concerning asymmetric information in peer-to-peer (P2P) Syariah lending. Primarily from the perspective of Fiqh muamalah, the research investigates legal norms and evaluates how these norms are applied to manage information asymmetry and its consequences in Islamic finance.

The research focuses on regulatory frameworks and legal practices in Indonesia, a country with a large Muslim population and a rapidly growing

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<sup>7</sup> Younes Soualhi, "Application of Shari'ah Contracts in Contemporary Islamic Finance: A Maqasid Perspective," *Intellectual Discourse* 23, No. Special Issue (2015): 333–54.

<sup>8</sup> Atmo Prawiro, "Aktualisasi Akad Dalam Fikih Muamalah Bagi Lembaga Keuangan Syariah," *Tasyri': Journal of Islamic Law* 1, no. 2 (2022): 215–52, <https://doi.org/10.53038/tsyr.v1i2.30>.

<sup>9</sup> Tunggul Ansari Setia Negara, "Normative Legal Research in Indonesia: Its Originis and Approaches," *Audito Comparative Law Journal (ACLJ)* 4, No. 1 (2023): 1–9, <https://doi.org/10.22219/acj.v4i1.24855>.

fintech sector. To provide a broader understanding of Islamic P2P lending applications, the study also draws comparisons from other jurisdictions with advanced Islamic financial systems, such as Malaysia.

Primary data consists of laws and regulations, such as Financial Services Authority (OJK) regulations in Indonesia, as well as relevant fatwas from the National Shariah Board (DSN-MUI). Secondary data consists of journals, books, and articles that discuss Islamic finance, fiqh muamalah, and asymmetric information. It also includes case studies from existing Islamic peer-to-peer (P2P) lending platforms. Data is collected through a documentary study of laws, fatwas, journal articles, and relevant case law. This includes qualitative analysis of legal texts and quantitative data related to P2P lending platform case studies.<sup>10</sup> Additionally, literature reviews of previous studies discussing asymmetric information and risk determination in financial markets are incorporated.

The data is analyzed using a qualitative legal analysis method that focuses on interpreting Islamic legal principles and regulations within the context of asymmetric information. Descriptive statistics are also used to analyze patterns and trends in data from case studies and lending platforms. This provides insight into how information asymmetry affects financial risk. Complex statistical tools are not used because the study primarily relies on legal interpretation and qualitative data.

## **Result and Discussion**

### **Fiqh Muamalah in Financial Transactions**

In fiqh muamalah, financial transactions are governed by principles derived from Islamic teachings to ensure just and ethical transactions. Fiqh muamalah is the body of Islamic jurisprudence dealing with financial transactions, contracts, and trade among individuals. It is rooted in primary sources of Islamic law, such as the Qur'an, Hadith, and scholarly consensus (ijma').

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<sup>10</sup> Sanne Taekema, "Theoretical and Normative Frameworks for Legal Research: Putting Theory into Practice," *Law and Method*, 2018, <https://doi.org/10.5553/rem/.000031>.

The principles of fiqh muamalah are based on key concepts such as justice (adl), transparency (bayyinah), and the prohibition of harmful practices like excessive uncertainty (gharar) and usury (riba). These principles aim to ensure fairness and mutual consent between parties involved in a contract or transaction. According to Permana, the rules of fiqh, developed through ijtihad (scholarly reasoning), provide a framework for addressing new and evolving financial matters, particularly in modern Islamic financial institutions.<sup>11</sup>

Moreover, qawa'id fiqhiyyah, or Islamic legal maxims, play a crucial role in guiding financial transactions. As Maulana notes, these maxims simplify complex legal rulings and provide practical applications for contemporary economic transactions that adhere to Shariah compliance.<sup>12</sup> In conclusion, fiqh muamalah ensures that financial transactions are conducted fairly and ethically. It does so by adhering to the foundational principles of justice, transparency, and mutual consent. This aligns with Islamic values in both traditional and modern financial contexts.

In Islamic peer-to-peer (P2P) lending, various contracts (akad) are used to ensure that transactions adhere to Shariah principles by avoiding riba (interest), gharar (excessive uncertainty), and maisir (gambling). The contracts commonly used on P2P lending platforms are based on well-established Islamic financial principles. Among the most common contracts used on these platforms include murabahah, mudharabah, musharakah, and wakalah bil ujah.

In a murabahah contract, the lender acts as the seller and purchases goods, which are then sold to the borrower at a markup. The borrower repays the amount in installments. This method ensures transparency and avoids interest, making it suitable for Shariah-compliant financing. Another widely used contract is the mudharabah, which is a profit-sharing agreement in which one party provides capital and the other provides expertise. Profits are shared

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<sup>11</sup> Iwan Permana, "Penerapan Kaidah-Kaidah Fiqih Dalam Transaksi Ekonomi di Lembaga Keuangan Syariah," *Tahkim (Jurnal Peradaban dan Hukum Islam)* 3, No. 1 (2020): 17–38, <https://doi.org/10.29313/tahkim.v3i1.5617>.

<sup>12</sup> Irwan Maulana, "Implementasi Qawaid Fiqhiyyah dalam Ekonomi dan Industri Keuangan Syariah," *Jurnal Asy-Syukriyyah* 19, No. 2 (2018): 77–90, <https://doi.org/10.36769/asy.v19i2.34>.

according to an agreed-upon ratio, while losses are solely the responsibility of the capital provider, aligning with the principle of fairness in Islamic finance.<sup>13</sup>

Similarly, a musharakah is a joint venture agreement in which both parties contribute capital and share profits and losses based on an agreed-upon ratio. This fosters a collaborative business partnership. This contract is often used in business-oriented peer-to-peer (P2P) lending scenarios. Finally, wakalah bil ujah is an agency contract in which one party acts on behalf of another for a fee. Platforms like Ammana.id use this structure to manage funds between lenders and borrowers, ensuring efficiency and compliance with Islamic principles.<sup>14</sup>

### **The Concept of Asymmetric Information**

In economics, asymmetric information refers to situations in which one party to a transaction has more or better information than the other party, which can lead to market inefficiencies. This concept plays a central role in economic theory, particularly in understanding market failures and inefficiencies, especially in financial transactions. For example, George Akerlof's seminal work, "The Market for Lemons," highlighted how asymmetric information can result in adverse selection. In this scenario, buyers cannot differentiate between high-quality and low-quality goods due to a lack of information. Consequently, the market becomes flooded with inferior products.<sup>15</sup>

In financial markets, asymmetric information often arises when borrowers know more about their ability to repay loans than lenders do. This can result in higher risk for lenders and inefficient capital allocation. This imbalance can lead to adverse selection and moral hazard, in which borrowers

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<sup>13</sup> Annisa Fithria, "Exploring the Application of Sharia Contracts on Islamic Fintech Peer-to-Peer Lending in Indonesia," *Al-Hikmah: International Journal of Islamic Studies and Human Sciences* 5, No. 6 (2022): 31–56, <https://doi.org/10.46722/hikmah.v5i6.327>.

<sup>14</sup> Khasanudin Khasanudin and Budi Santoso, "Analysis of Financial Technology Product Contracts Peer to Peer Lending Syariah Platform Ammana.Id," *Journal of Law and Legal Reform* 3, No. 2 (2022): 185–214, <https://doi.org/10.15294/jllr.v3i2.54623>.

<sup>15</sup> Dino Falaschetti and Michael J. Orlando, "Asymmetric Information," in *Money, Financial Intermediation and Governance* (Edward Elgar Publishing, 2008), <https://doi.org/10.4337/9781848441347.00026>.

take on higher risks because they do not face the full consequences of those risks. Mechanisms such as collateral requirements, credit scoring, and regulatory oversight are employed to reduce information asymmetry and ensure better market functioning.<sup>16</sup>

Asymmetric information plays a crucial role in the design of contracts and regulations in financial law. Legal frameworks aim to minimize information gaps and protect less informed parties by enforcing transparency, disclosure, and fair practices in transactions. These measures help mitigate the risks associated with asymmetric information, promoting a fairer and more efficient financial system.<sup>17</sup> The concept of asymmetric information is foundational to both economic theory and financial law. It provides critical insights into how markets operate and how to mitigate inefficiencies to foster better market outcomes.

In the context of peer-to-peer (P2P) lending, information imbalance, also known as information asymmetry, profoundly impacts financial risk determination. This imbalance occurs when borrowers have more information about their creditworthiness than lenders do. This can lead to adverse selection and moral hazard. For example, lenders on P2P platforms often rely solely on information provided by borrowers, which may not accurately reflect their actual risk profile. This lack of comprehensive information can cause lenders to misjudge the default risk associated with loans. Studies have shown that imbalanced datasets exacerbate this issue, as the number of fully paid loans often far exceeds the number of defaulted loans. This further complicates the ability of machine learning algorithms to accurately predict defaults.<sup>18</sup>

Moreover, the unsecured nature of loans and the limited regulation of P2P lending increase credit risk for investors. Various models have been

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<sup>16</sup> Sreedhar T. Bharath, Paolo Pasquariello, and Guojun Wu, "Does Asymmetric Information Drive Capital Structure Decisions?," *SSRN Electronic Journal*, 2018, <https://doi.org/10.2139/ssrn.789725>.

<sup>17</sup> Farhad Lotfi et al., "Asymmetric Information in Iranian's Health Insurance Market: Testing of Adverse Selection and Moral Hazard," *Global Journal of Health Science* 7, No. 6 (2015): 146–55, <https://doi.org/10.5539/gjhs.v7n6p146>.

<sup>18</sup> Yen Ru Chen et al., "Predicting Default Risk on Peer-to-Peer Lending Imbalanced Datasets," *IEEE Access* 9 (2021): 73103–9, <https://doi.org/10.1109/ACCESS.2021.3079701>.

developed to address these issues, including neural networks and cost-sensitive algorithms. However, they still struggle to fully mitigate the impact of information asymmetry.<sup>19</sup> Therefore, managing information asymmetry is essential for accurately assessing financial risk in P2P lending because it directly affects the likelihood of loan default and the performance of P2P lending platforms.

### **Risk Determination in Islamic Peer to Peer Lending**

In Islamic peer-to-peer (P2P) lending, risk determination is guided by Shariah principles, which emphasize fairness and transparency and prohibit *riba* (interest) and *gharar* (excessive uncertainty). Risk in Islamic P2P lending is often determined by a mix of hard information, such as the borrower's credit history and financial data, and soft information, including details provided by the borrower and social indicators. Although Islamic P2P lending platforms are growing in popularity, studies have shown that they still face challenges in managing credit risk due to information asymmetry and a lack of conventional collateral. noted that machine learning techniques, such as neural networks, are being used more frequently to evaluate the risk of default in P2P lending. These techniques analyze borrower data and categorize loans as high- or low-risk.<sup>20</sup> Additionally, Shariah-compliant lending emphasizes ethical financing. In this model, platforms use various partnership contracts, such as *mudharabah* and *musharakah*, to distribute risk between lenders and borrowers. By adopting sophisticated algorithms alongside the principles of fairness and risk-sharing, Islamic P2P lending platforms can assess risks while adhering to Islamic legal requirements, setting them apart from conventional risk determination models.

The presence of asymmetric information in risk determination poses significant challenges, especially in financial markets like P2P lending. Asymmetric information occurs when one party-typically the borrower-has more or better information about the risks involved than the lender. This can

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<sup>19</sup> Ajay Byanjankar, "Predicting Credit Risk in Peer-to-Peer Lending with Survival Analysis," in *2017 IEEE Symposium Series on Computational Intelligence, SSCI 2017 - Proceedings*, Vol. 2018-January, 2017, 1-8, <https://doi.org/10.1109/SSCI.2017.8280927>.

<sup>20</sup> Byanjankar.

lead to adverse selection and moral hazard. Adverse selection occurs when lenders cannot differentiate between high- and low-risk borrowers accurately, causing them to misprice risk and potentially lend to individuals more likely to default. Moral hazard occurs after the transaction when borrowers take on more risk than initially disclosed because they know the lenders will bear the consequences of their actions.

Studies such as those by Bharath et al. have shown that this imbalance in information can result in increased loan costs for lenders, who must account for the additional risk posed by unknown borrower behaviors.<sup>21</sup> Moreover, Arvanitis et al. suggest that markets with asymmetric information face higher trading costs and inefficiencies because participants with less information demand higher returns to compensate for the additional risk.<sup>22</sup> Thus, asymmetric information complicates risk determination, requiring more advanced risk management strategies such as better transparency mechanisms, improved credit scoring models, and innovative contractual solutions to balance information disparities.

### **Asymmetric Information in Islamic Peer to Peer Lending**

In peer-to-peer (P2P) lending transactions, asymmetric information arises when one party—typically the borrower—possesses more or better information about their financial status and repayment ability than the lender. This information imbalance creates two primary risks: adverse selection and moral hazard. Adverse selection occurs when lenders, unable to distinguish between low- and high-risk borrowers, inadvertently fund loans with higher default probabilities. Moral hazard, on the other hand, emerges when borrowers engage in riskier financial behavior after securing the loan, knowing that they face limited consequences compared to the lender. Studies show that a lack of comprehensive, verifiable data exacerbates these risks, leading to inefficiencies and higher loan default rates. According to Cummins et al.,

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<sup>21</sup> Bharath, Pasquariello, and Wu, "Does Asymmetric Information Drive Capital Structure Decisions?"

<sup>22</sup> Angelo Arvanitis, Jonathon Gregory, and Richard Martin, "Hedging Financial Risks Subject to Asymmetric Information," *Journal of Risk Finance* 1, No. 2 (2000): 9–18, <https://doi.org/10.1108/eb043441>.

platforms mitigate this by employing strategies such as enhanced credit scoring models, transparency measures, and leveraging both hard and soft information to reduce information asymmetry.<sup>23</sup> However, despite these efforts, the challenge of asymmetric information remains central to risk determination in P2P lending, influencing both the cost of credit and the likelihood of successful loan performance.

Several cases highlight the impact of an information imbalance between lenders (investors) and borrowers in peer-to-peer (P2P) lending. For example, studies of platforms like Prosper.com show that lenders often only have access to general credit categories rather than specific credit scores. This leads to adverse selection, making it difficult for lenders to accurately assess the risk profile of borrowers. This information gap makes it difficult for lenders to accurately assess borrowers' risk profiles, resulting in the funding of loans that are more likely to default. However, as detailed by Freedman & Jin, over time, some lenders learn to overcome this issue through experience and platform mechanisms that provide more detailed information on borrower history.<sup>24</sup>

Another case occurs when borrowers deliberately manipulate the information they disclose. A study on the Chinese P2P platform Renrendai shows that while voluntary information disclosure can increase the probability of loan funding, it may also lead to higher default rates, as some borrowers provide overly favorable or inaccurate information to secure loans. Chen et al highlights the challenge this presents to lenders, who may be misled by manipulated borrower information, leading to poor lending decisions.<sup>25</sup>

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<sup>23</sup> Cummins et al., "Addressing Information Asymmetries in Online Peer-to-Peer Lending."

<sup>24</sup> Seth Freedman and Ginger Zhe Jin, "Do Social Networks Solve Information Problems for Peer-to-Peer Lending? Evidence from Prosper.Com," *SSRN Electronic Journal*, 2012, <https://doi.org/10.2139/ssrn.1936057>.

<sup>25</sup> Xiao Chen, Bihong Huang, and Mohamed Shaban, "Naïve or Sophisticated? Information Disclosure and Investment Decisions in Peer to Peer Lending," *Journal of Corporate Finance* 77 (2022), <https://doi.org/10.1016/j.jcorpfin.2020.101805>.

### **Muamalah Fiqh Review of Asymmetric Information**

In fiqh muamalah, the principles of openness and fairness in financial transactions are essential to ensuring that all parties involved in a contract are treated justly and that no party takes advantage of another. These principles are rooted in Islamic teachings that condemn transactions involving deceit, uncertainty, or exploitation. Openness, or transparency, is crucial in financial dealings because it gives both lenders and borrowers access to all relevant information, enabling them to make informed decisions. This aligns with the concept of fairness (*adl*), which requires that all contracts be equitable and beneficial to all parties. According to Farikhin & Mulyasari, Islamic law mandates that business transactions must be free from fraud and uncertainty to prevent harm and disputes between parties. The prohibition of *gharar*, for example, ensures that both parties have a clear understanding of the contract terms and that neither party is misled by false or incomplete information.<sup>26</sup> Therefore, openness and fairness are fundamental in upholding the ethical standards of Islamic finance and ensuring that transactions remain compliant with Shariah principles.

In fiqh muamalah, information imbalance is a significant concern, particularly in financial transactions such as Islamic peer-to-peer (P2P) lending. This occurs when one party—typically the borrower—has more information about their financial health and repayment ability than the lender. From an Islamic perspective, this imbalance creates conditions conducive to *gharar* (excessive uncertainty) and moral hazard, both of which are prohibited under Shariah law. Open communication and transparency are essential to mitigating these risks and ensuring that both parties have access to complete and accurate information. Transparency fosters trust and equitable risk-sharing in financial contracts.

Shariah principles address this issue through mechanisms such as the prohibition of *riba* (interest), the emphasis on fair disclosure in contracts, and

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<sup>26</sup> Ahmad Farikhin and Heni Mulyasari, "Gharar, Fraud and Dispute in Islamic Business Transaction an Islamic Law Perspectives," *International Economic and Finance Review* 1, No. 2 (2022): 40–53, <https://doi.org/10.56897/iefr.v1i2.18>.

the requirement for detailed and clear terms in financial dealings to avoid exploitation or deceit. According to Hidayatullah & Fadillah, risk management in Islamic finance incorporates Shariah principles that require equitable treatment and transparency, particularly in contracts like *mudharabah*, where risk and profit are shared. This promotes fairness and reduces the likelihood of adverse selection and moral hazard, which are common issues arising from information imbalances.<sup>27</sup>

### **Fiqh Muamalah: Solutions to minimize asymmetric information in risk determination**

To increase transparency and minimize asymmetric information in financial transactions, especially within the framework of *fiqh muamalah*, the following key principles should be emphasized: First, transparency (*bayyinah*) is paramount, requiring all parties involved in a transaction to disclose all relevant information to prevent deception and ensure fair dealings. This principle aligns with the Shariah objective of preventing *gharar*, or excessive uncertainty, which can occur when one party lacks sufficient information, leading to potential exploitation or an unfair advantage. Studies suggest that implementing clear, detailed contracts where every term is openly communicated and understood by all parties is an essential step toward reducing information asymmetry in Islamic finance transactions. Additionally, independent audits and regular disclosures promote transparency and ensure the accountability of lenders and borrowers. By adhering to these principles, Islamic finance can uphold its ethical foundations while improving trust and efficiency in its operations.<sup>28</sup>

In Islamic peer-to-peer (P2P) lending, regulators and Islamic financial institutions play a crucial role in enforcing Shariah compliance to protect lenders (investors) and borrowers. In Indonesia, for example, the Financial Services Authority (OJK) is responsible for ensuring that the legal frameworks

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<sup>27</sup> Muhammad Syarif Hidayatullah and Rahmat Fadillah, "Economic and Legal Dimensions of Collateral Existence in Modern *Mudhārabah* Contracts: Understanding the Relationship between Risk Management, National Law, and Contemporary Fiqh," *Al-Manahij: Jurnal Kajian Hukum Islam* 16, No. 2 (2022): 223–38, <https://doi.org/10.24090/mnh.v16i2.6860>.

<sup>28</sup> Hidayatullah and Fadillah.

governing P2P lending align with Islamic principles. These frameworks aim to prevent *riba* (interest), *gharar* (excessive uncertainty), and *maysir* (gambling) in financial transactions, all of which are prohibited under Shariah law. In addition to setting legal regulations, Islamic financial institutions must establish Shariah Supervisory Boards (SSBs) to ensure that financial activities comply with Islamic principles. SSBs review contracts, promote transparency, and ensure fairness to protect investors and borrowers from unethical practices. According to Takidah & Kassim, the implementation of Shariah compliance on Islamic P2P platforms is an ongoing process that involves active monitoring and evaluation to ensure that all transactions align with Islamic values and protect the interests of all parties involved.<sup>29</sup> The collaborative role of regulators and financial institutions, along with strict adherence to Shariah principles, provides a safeguard for the ethical conduct of P2P lending, promoting trust and ensuring compliance in the financial ecosystem.

### Conclusion

An analysis of asymmetric information in Islamic peer-to-peer (P2P) lending reveals that imbalances in information between borrowers and lenders pose significant risks. These risks include adverse selection and moral hazard, which can lead to inefficiencies in financial transactions. These risks increase when lenders lack access to sufficient or accurate information to evaluate borrowers' creditworthiness. The principles of *fiqh muamalah* play a crucial role in mitigating these risks by promoting transparency, fairness, and ethical conduct in financial transactions. By prohibiting *riba* (interest), *gharar* (uncertainty), and *maysir* (speculation), Islamic finance guarantees that both parties are well-informed and that transactions are free from exploitative practices.

Shariah-compliant contracts, such as *murabahah* and *mudharabah*, foster an equitable risk-sharing environment between lenders and borrowers. The establishment of Shariah Supervisory Boards (SSBs) and regulatory

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<sup>29</sup> Erika Takidah and Salina Kassim, "The Shariah Compliance of Islamic Peer-to-Peer (P2P) Lending Practices in Indonesia: Identification of Issues and the Way Forward," *ICR Journal* 13, No. 1 (2022): 72–91, <https://doi.org/10.52282/icr.v13i1.830>.

oversight ensures that P2P lending platforms adhere to these ethical principles, thereby reducing the potential for information asymmetry. Islamic P2P lending platforms that adhere to the principles of fiqh muamalah can effectively minimize information imbalances. This promotes fairness and trust in the financial ecosystem while safeguarding the interests of lenders and borrowers.

To enhance transparency in Islamic peer-to-peer (P2P) lending and ensure compliance with Shariah principles, regulators and industry leaders in the Shariah fintech sector must proactively reduce information imbalances and promote fairness. Regulators should ensure that all Islamic P2P lending platforms have robust Shariah Supervisory Boards (SSBs) responsible for overseeing compliance with Shariah principles. The regulatory framework should also include clear transparency requirements, such as full disclosure of borrower information and financing agreement terms. Regulators should introduce mandatory disclosure rules that require borrowers and fintech platforms to provide lenders with accurate, clear, and comprehensive information. This information can include credit assessments, financial histories, and other relevant data to enable better risk assessment. To ensure that P2P platforms continuously uphold transparency and fairness in their operations, regular audits and Shariah compliance reviews should be mandated. These audits and reviews will help identify and promptly address potential issues related to information asymmetry.

Shariah fintech platforms should prioritize clear and transparent contract structures, such as murabahah and mudarabah, which outline all rights, obligations, and risk-sharing mechanisms from the outset. This ensures that lenders and borrowers fully understand the terms of the agreement, thereby reducing uncertainty (gharar). Fintech platforms should utilize innovative technologies, such as blockchain and big data analytics, to improve the accuracy and accessibility of borrower information. These tools can enhance transparency by offering real-time updates on borrower performance and default risks. Platforms should also provide educational resources for lenders and borrowers to ensure they understand their rights and obligations under fiqh muamalah. This knowledge empowers users to engage in ethical,

Shariah-compliant transactions. Implementing these solutions allows regulators and Shariah fintech industry players to improve transparency, reduce risks associated with asymmetric information, and ensure that Islamic P2P lending platforms remain fully compliant with Shariah principles.

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