Proceedings Series on Social Sciences & Humanities, Volume 7
Proceedings of the 3rd International Conference of Business, Accounting & Economics (ICBAE)
ISSN: 2808-103X

Risks of Cryptocurrency Investment from the Perspective of Sharia Economic Law

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ARTICLE INFO

Article history:

DOI:
10.30595/pssh.v7i.465

Submited:
July 25, 2022

Accepted:
August 05, 2022

Published:
August 24, 2022

Keywords:

Risk, cryptocurrency investment, sharia economic perspective

ABSTRACT

Money is a medium of exchange used to pay for goods or services. However, over time, the function of money evolved so that it could be used as a unit of account and a store of value. The development of the digital era provides economic convenience, resulting in a change in the use of money, one of which is the emergence of crypto or cryptocurrency investments that are used as digital currencies. Because there is no official permit from the government or state financial institutions, the existence of cryptocurrency investment in Indonesia is still questionable. So there is a high enough risk to invest there, such as if the investor loses money when the cryptocurrency's price falls. The methodology employed in this study is descriptive, with a qualitative approach. To evaluate the risk of cryptocurrency investment through the lens of Islamic economics.

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1. INTRODUCTION

Many things are becoming more advanced as we get older, one of which is the development of the digital era. It affects not only the educational sector, but also the economic sector. The internet, which has become a necessity in recent years, has begun to play an important role in most Indonesians' financial lives. Various types of transaction activities that used to take place in the market using money as a legal medium of exchange, both in the form of currency and demand deposits, are now beginning to transform into e-money payment systems, smart cards, debit cards, e-cash, and other things that are currently being done. The topic of cryptocurrency has recently come up. [1] [14]

Cryptocurrency is a digital currency that uses technology with a database managed by a blockchain. Which currency is used in electronic transactions as a virtual currency. Furthermore, cryptocurrency owners use this currency to invest. Financial investment has recently grown rapidly as well, from simple investments to more advanced financial derivative investments. Investments can be made without the involvement of intermediaries such as banks by conducting online business interactions. Transactions are completed instantly, across countries and continents, and with greater certainty of confidentiality. [2]

Cryptocurrencies based on blockchain technology are the most recent developments in the investment world, with potential that extends beyond payment systems. Decentralized applications are designed to have an impact on various aspects of life, such as economics, craftsmanship, education, the arts, culture, and so on. [7] One of the benefits that cryptocurrency voters can obtain in transaction activities is the efficiency of time and energy because it can be done anywhere using appropriate computers or other digital devices.

Furthermore, the transaction model is peer-to-peer or from sender to recipient, but it is still recorded on the cryptocurrency network. Users of bitcoin typically face minimal risk because they do not face the risk of loss caused by deceitful investments or inflation that is common with printed currencies. Nonetheless, cryptocurrencies such as bitcoin insufficient underlying assets and are not regulated by Indonesia's Financial Services Authority/OJK, making them illegal activities. [3]

The first era of cryptocurrency began in 2008, when it was released by a man named Satoshi Nakamoto. Bitcoin was the first cryptocurrency to be introduced in 2009. (Noh, 2020). The demand for bitcoin is increasing by the day, and cryptocurrencies are beginning to have a negative impact in a variety of sectors. There are many people who oppose the existence of bitcoin because it does not always provide promising things with futuristic technology. [11]

There are advantages and disadvantages to using cryptocurrencies for payment transactions in Indonesia. This is due to cryptocurrencies that do not meet the requirements for a currency in Indonesia, as stated in Law Number 7 of 2011. [3]

There are still numerous debates in the field of sharia economics. The Turkish government's religious authorities and Egypt's Grand Mufti have both declared cryptocurrency to be haram, or forbidden. The South African Islamic Seminar fatwa center, on the other hand, allows this in terms of trade. There is a lot of negative publicity, speculative issues, legality in terms of both law and sharia, especially the risks of using cryptocurrencies. This is an intriguing phenomenon to investigate, and it motivates us to conduct research on the risks of investing in cryptocurrencies from an Islamic economics perspective.

2. LITERATURE REVIEW

As we already know, money has a long history and has advanced rapidly since humans first introduced it. With money, we can generate exchanges that were previously required by bartering between goods into a simple exchange in trade. With the rapid development of the times, the needs of the community or individuals for convenience, speed, and security in exchange are increasing.

2.1 Cryptocurrency

Cryptocurrency is divided into 2 types: crypto, which means "secret," and currency, which means "money". [8] We can conclude that cryptocurrency is a digital money mechanism that is used to interact virtually and is protected by complex computer passwords. Satoshi Nakamoto created the first successful cryptocurrency, bitcoin, in 2009. Cryptocurrency operates on a peer-to-peer digital exchange system that employs cryptography to generate and distribute tokens (Farell, 2015). Cryptography is a branch of computer science that tells people how to hide information.

The arrival of new cryptocurrency technology has definitely had an impact on the financial payment system. So far, the financial payment system is supervised by a third party, such as a bank; however, the cryptocurrency trading system is free of banking fees and is not supervised by a third party. Lisk, Ripple, Ether, Litecoin, MaidSafeCoin, StorjCoinX, Ethereum, Dash, Doge-Coin, Zcash, Monero, and Bitcoin (BTC) are some examples of cryptocurrencies [2]

Bitcoin is one of the cryptocurrency currencies. The benefits include the absence of credit card numbers that can be collected by irresponsible individuals, more efficient payment methods, the ability to interact without revealing identities, and secure control over bitcoin money. However, nothing is perfect, and cryptocurrency in Due to a lack of a Financial Services Authority permit, Indonesia is still considered illegal (OJK). Due to the lack of third-party supervision, the risk will be borne directly by the investor. For example, if we lose our bitcoin currency when investing in cryptocurrency, there is no guarantee of loss, we cannot track where the money has gone, and transactions cannot be canceled or returned.

2.2 Investing in Islamic Economy

The Big Indonesian Dictionary (KBBI) identifies investment as a long-term investment to hold fixed assets or by purchasing shares or other securities with the goal of generating long-term profits. Investors are the perpetrators of those who make investments.

Sharia defines investment as an activity to generate money through the use of resources in order to profit in accordance with Islamic law, which is based on the law of the Qur'an and Hadith. According to the great cleric, Al-Ghazali, it is critical to understand the benefits, which include compensation for travel exhaustion, business risks, and threats to the entrepreneur's safety. [13]

According to Pontjowinoti, basic sharia principles used in investing in Islamic economics are as follows:

1. Transactions on the assets provided provide value for benefits while ignoring any unfair transactions.

2. Money is not a trading commodity because its function is to exchange value, which describes the purchasing power of an item or property. While the benefits and profits generated are determined by the use of the goods or the price paid for them.
3. Every transaction must be transparent, with neither party intentionally or unintentionally causing any loss or fraud.
4. Any risks that may arise must be managed so that they do not pose a significant risk or exceed the risk bearer's ability.

There are many major signs in Islam that must be followed in sharia investment, one of which is the absence of usury, as stated in the Qur'an Qs. Ali-Imran: 130; "O you who believe, do not eat usury multiplied and fear Allah so that you gain profit." Investments must also avoid gharar or fraud, as well as gambling, haram, and doubtful elements (uncertain).

2.3 Cryptocurrency Investment in Islamic Economic Perspective

Cryptocurrency investment in the perspective of sharia economics can be seen from the hadith of Ubadah bin Shamit, the Prophet SAW said, "Sell gold for gold, silver for silver, wheat for bur wheat, coarse wheat for coarse wheat, dates for dates, and salt with salt on condition that it must be the same measure and similar, and in cash from hand to hand." (Hadith narrated by Muslim, Abu Daud, Tirmidhi, Nasa'i, and Ibn Majah).

Cryptocurrencies are similar to the exchange of gold for gold and silver for silver in that they can be exchanged for other currencies such as dollars and rupiah, which is known as sharf in fiqh science. So, while the use of crypto is permitted, Imam Al-Ghazali requires that currency be issued and circulated by government authorities. This is subject to the government stating that the money is a legal and official transaction tool. However, as we know, the existence of cryptocurrencies is still being debated in various countries, including Indonesia, and cryptocurrency activity is still considered illegal in Indonesia. So, in this case, the use of currency and cryptocurrency transactions are prohibited under Sharia law, because Islam informs us to obey government orders or rules. [5]

The emergence of cryptocurrencies has a lot of potential because the advantage of cryptocurrencies is that we can easily transact. However, when we go a step further, the use of cryptocurrency as an online transaction contains a number of negative aspects. That means there are numerous risks that can arise when investing in cryptocurrencies, having put us at a disadvantage as investors. As a result, this practice is contrary to the Sharia provisions taught by Islamic religious teachings, which state that muamalat transactions that cause harm should be avoided. [4]

As a result, we can conclude that there are both advantages and disadvantages to investing in cryptocurrencies. Some scholars accept cryptocurrencies, but many others forbid transactions in cryptocurrencies due to the dangers or risks associated with investing in them. The concept of the rules tells us that in Islam, we should avoid hurting ourselves and others in order to avoid mafsadat or damage. Sharia informs us how dangerous the practice of cryptocurrency digital money is, and we must be conscious of the risks involved.

Scholars are divided on the presence of cryptocurrency. These two points of view are extremely common in Muslim-majority countries. Some scholars support and others oppose the use of cryptocurrencies.[6]

Scholars issued this haram fatwa because cryptocurrencies are thought to have no form and can only be used in cyberspace. Furthermore, the use of cryptocurrencies is not subject to state financial supervision. The government does not have the authority to regulate how cryptocurrencies operate. [6]

Scholars argue that buying and selling cryptocurrency is illegal because it disregards religious teachings. Cryptocurrency is regarded as a currency with speculative value (gharar), which can facilitate the use of cryptocurrency in illegal activities such as money laundering. Furthermore, currency valuation that is solely based on speculation can be classified as gambling (maysir). [15]

Gharar is a characteristic of muamalah that makes some of its pillars uncertain (mastur alaqibah). This gharar occurs when something that is certain to be uncertain is changed. The Prophet Muhammad forbade the application of gharar law, so making transactions or including gharar-related conditions in a contract is haram. [16]

Meanwhile, maysir is an etymological term that means "easy." Maysir is a type of object that is defined as a position where something can be done. It is said to make things easier because someone who should have taken the difficult path is looking for shortcuts in the hope of achieving what they want, even if these shortcuts are contrary to Sharia values and rules. The term maysir refers to gambling, which is an act performed in order to profit from uncertain information.

Allah SWT always mentions Maysir beside the Khamar in the Qur'an. As a result, Maysir's sharia has the same legal status as Khamar's, haram. [6]

As a result, any activity in which one party gains while the other party loses is prohibited, including gambling. Lotteries, luck, or good intentions, such as lucky draws or give-aways, are examples. The desire to profit from speculation on the risky price of cryptocurrencies makes cryptocurrencies with Gharar and Maysir elements. [1]

3. RESEARCH METHOD

This study used a qualitative approach to gain a comprehensive and in-depth understanding of the issues. Furthermore, this method is appropriate for this research because it allows for direct interaction with research subjects, making the data obtained more valid. [9]

Because of the concept behind this research, qualitative research on investment risk and a sharia-compliant economic perspective are required, and it focuses not only on complex mathematical and statistical analysis tools, but also on conceptual foundations. This study employs a literature study approach, with data collected from various studies published in accredited national and international journals, including Cryptocurrency and Blockchain Technology, Cryptocurrency from a Sharia perspective, Role and Potential of Blockchain Technology in Islamic Finance, and Sharia'ah Code of Ethics in Cryptocurrency. Secondary information was gathered from books related to the Handbook of Cryptocurrency and Blockchain Technology. [12]

4. RESULT AND DISCUSSION

Cryptocurrencies are regarded for several strengths or advantages among those who have learned and practiced them. Transactions in cryptocurrencies, for example, are extremely secure, thanks to strong cryptographic functions. Cryptography is the use of a secret signature when transacting to protect it from forgery and double issuance.

Despite these benefits, cryptocurrency has some disadvantages, including the fact that it has no intrinsic value. Bitcoin, for example, has no inherent value and no physical structure because it only exists in digital form; additionally, no central bank determines its availability, and it is not distributed or administered by any corporation. Some participants also argue that digital cryptocurrencies are not real money because they are not backed by tangible assets with intrinsic value.

4.1 Risk

ISSN: 2808-103X

№	Parameters	Existing Models of Finance			The New finance model:
		Classical Finance	**Corporate Finance**	**Islamic Finance**	**Digital Finance**
1.	Era of establishment	The beginning of the currency emission	Development of financial markets	Economic growth of Islamic countries	1. Independent Internet access 2. Independent currency emission
2.	Single emission center	Yes	Yes	Yes	No
3.	State regulation of financial activities	Yes	Yes	Yes	No
4.	Interest based loans	Yes	Yes	No	Yes
5.	The cost of money over time	Constant	Future money is cheaper	Constant *	Future money is more expensive***
6.	The objective of doing business	Profit maximization	Maximizing the cost of capital	Achieving prosperity in both worlds **	Maximizing personal freedom of action ***
7.	Criteria for business efficiency	Income exceeding expenditure	profits exceeding expenses for servicing capital	Excess of incomes over expenditures taking into account religious restrictions	Steady growth in clients ***

* From theoretical point of view, it is constant, but since Islamic finance does not have its own (Islamic) currency and is based on conventional / traditional currency, the value of money over time can be unstable, for example, "future money could be cheaper than the money at hand" as is the case in corporate finance.
**This unscientific formulation implies the desire of Muslim businessmen to maximize their family and social wealth by observing strict religious rules and regulations.
***Presumption of the authors

Figure 1. Characteristics of the Four Fundamental Finance Models Compared

Each of these four models has been associated with the rapid development of one of society's spheres of economic or political life at some point in time. The rapid development of financial markets is associated with the corporate financial model. This creates opportunities for alternative investments that lead to new business models, particularly where the increased cost of capital is maximized. Meanwhile, rapid economic development in some Muslim countries gave rise to the Islamic finance model. This enables Muslims in these countries to invest their savings in Shariah-compliant projects. Similarly, the binternet is rapidly evolving in the financial sector, particularly Big Data, Blockchain, Smart Contracts, P2P, Internet air/space distribution, and many others. [10]

These developments have opened up a lot of new opportunities for conducting business over the network. It has also enabled the development of a modern financial system - digital finance - that is fundamentally different from the current system. Cryptocurrencies are one of these forms of digital finance, which primarily decentralize the emission process, making it difficult for the circulation of money to be controlled and managed by a central authority. Cryptocurrencies are accessible to everyone, including Islamic financial institutions and ordinary users, as long as they have Internet access. Despite these rapid developments, the issue of cryptocurrency Shariah compliance remains unresolved. [10]

Cryptocurrency risk can provide significant benefits to investors due to fluctuating prices or spikes and increases and decreases very quickly (unpredictability), but this volatility is also a form of real risk that investors must face. [9]

When the coin price is high, investors face a significant loss or risk. The risk of investing in cryptocurrency coins is also related to their government oversight and legality in a country. Many countries have yet to legalize cryptocurrency because the emergence of cryptocurrencies has resulted in cybercrimes such as money laundering, terrorist financing, buying and selling drugs, fraud, and other types of cybercrime. In Indonesia, the Commodity Futures Trading Regulatory Agency (BAPPEBTI) classifies crypto assets as commodities traded on futures exchanges. [5]

As a result, by law, cryptocurrency continues to have limited rules and cannot be fully regulated by the government. This is a distinct risk for investors, particularly for investors from the country. However, in order to respond to financial and technological challenges, as well as provide safeguards for cryptocurrency investors in Indonesia, the Government of Indonesia is constantly attempting to formulate and issue regulations, as well as record cryptocurrencies circulating in Indonesia, in order to answer problems and ensure the protection of the wider community following cryptocurrencies in Indonesia. [5]

4.2 Cryptocurrency comparison based on existing Sharia provisions

Based on financial risk and shariah-compliant alternative concept, in this case, three comparative results have been compared: OneGram, Bayan Token, and Stellar with existing sharia assessment conditions. In sharia conditions, cryptocurrencies are valued as industries that violate the law, confusion (gharar), and asset-backed cryptocurrencies. Sharia-compliant OneGram is available. As a result, OneGram is Sharia-compliant. Bayan tokens are sharia compliant because they are backed by physical assets. Stellar, on the other hand, is a Cryptocurrency that is not Sharia compliant due to the lack of support from some assets. [12]

4.3 Sharia-Compliant Cryptocurrency Alternatives for Future Islamic Economic Prospects: A Concept Analysis

When the concept of Sharia Cryptocurrency is created, it will be the right choice for the future of the Islamic economy with the creation of an Islamic state, carrying out everything with Sharia guidance. Aspects of Sharia law, particularly Maqashid Al-Syariah on cryptocurrency, must be considered when developing sharia-based cryptocurrencies. There is also the principle of wealth preservation in the use of digital currency. To protect people's money, cryptocurrencies must be controlled by authorities such as governments and backed by assets such as oil, gold, and silver. [12]

ISSN: 2808-103X

Shariah Requirement	Shariah Cryptocurrency Alternative Concept
Technology	Even if it runs on a blockchain platform, every component of the technology, as well as its operations and activities, must adhere to Shari'ah's divine spirit. The operator must form a Shari'ah advisory board to ensure Shari'ah compliance.
Law and Policies	In the sharia alternative cryptocurrency model, each and every aspect of one's business, operations, and management must adhere to Shari'ah principles, ethical standards, and local laws and policies, in addition to cyberspace regulations.
Regulatory Authorities	Even though no explicit regulation has been implemented yet, the establishment, system, technology, operation, and all actions in a Sharia cryptocurrency management are all subject to strict Shari'ah compliance. Adhering to the divine ethical standards, the Shari'ah advisory body, Shari'ah compliance rules and procedures, managerial duties, and corporate governance would assure conformity.
Backing Asset	Holding a valuable asset as a backing asset for the entire operation is required in Sharia cryptocurrency management. The underlying asset must be worth more than the initial coin offering (ICo). Such a backing asset will support the entire operation in order to instill confidence in the market among investors and serve as a safety net for the operation in the event of an unforeseen catastrophe.
Risk Plan	Risk management is one of the most important aspects of Sharia cryptocurrency management since it protects the user and the recipient from unforeseeable disasters such as system crashes, hacking, unethical conduct, or natural disasters. Under any situation, it is advised that two types of risk plans be created: a user's Takaful plan and a receiver's Takaful plan.

Figure 2. Shariah-Compliant Cryptocurrency Alternative Concept

The capacity of sharia-compliant cryptocurrency technology can seamlessly be used to build Islamic economic products and positively impact the global economy, particularly the future of the Islamic economy. One of these is the development of Sukuk products based on blockchain technology. Sukuk blockchain is a relatively new concept in today's world, and Smart Sukuk is one of the platforms that offers Sukuk issuance via blockchain technology. [12]

Future, cryptocurrency technology has the potential to expand financial inclusion by providing safe and reliable payment alternatives, with implications for financial market infrastructure in terms of a secure, accurate, and fast transaction settlement method. Increased data collection and transparency would aid the growth of the Islamic economic sector, with the goal of having a positive impact on the Islamic economy's future. [12]

5. CONCLUSION

As one of the countries with the most Muslim adherents in the world, the phenomenon of cryptocurrency has sparked several debates among Indonesian scholars. On the use of cryptocurrency itself, opinions differ. Specifically, as a sale and an investment.

The Tajdid Central Management (PP) Muhammadiyah and the Tarjih Council issued a fatwa on the use of cryptocurrencies for trading and investment.

Meanwhile, the Indonesian Ulema Council (MUI) prohibits cryptocurrency from being used for buying and selling but allows it to be used for investment (halal). On condition that the cryptocurrency qualifies as sil'ah. That is, it is something that is used to meet human needs and provides benefits, making it legal to own and trade.

In the meantime, the Nahdlatul Ulama (NU) has conducted a cryptocurrency study using Bahtsul Masail Halal Haram Crypto Transactions. According to the findings of Bahtsul Masail:

1. According to fiqh, crypto assets are wealth (mal). So the crypto asset in question is a fiqh treasure. The implication is that if this property is stolen, theft must be put in prison, and if it is damaged, it must be replaced.
2. It is legal to exchange because he is wealthy as long as there is no gharar (uncertainty).
3. Desire the public not to make this transaction too simple if they are unfamiliar with cryptocurrencies.
4. Encouraging the government to enact strict regulations to prevent cryptocurrency misuse and fraud.

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