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E-WALLET AND ITS PROSPECTS AND CHALLENGES: SMALL INDUSTRY OPERATORS IN ALOR SETAR, KEDAH

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ABSTRACT

This paper is to study the prospects and challenges using e-wallets among small industry located at Alor Setar, Kedah which has a great potential in agriculture, tourism and economic development sectors which have increased rapidly in recent years. The objective of this study is to explain transactions using e-wallets in Malaysia whether it comply with Shariah guidelines as well as explaining whether the e-wallets apps, is user-friendly which may improve the small industry operator in order to get a reasonable profit and blessing by using an e-wallet that complies with Sharia. Nevertheless the use of e-wallets (Islamic) is still low among them. The methodology used is quantitative studies and qualitative studies. The questionnaire is distributed online via Google Form among 100 respondents who live around Alor Setar.

Keywords: *E-wallet, Shariah guidelines, prospects and challenges, small industry*

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Introduction

Advances in the digital world lead to new creations and provide various benefits to the people. Modern innovations have transformed traditional methods of payment to more efficient and modern methods are free from the issue of cash and carry. E-payment methods are now more advanced than paper money base frameworks due to the efficiency of carrying out financial transactions through access to secure and faster cash. In Malaysia, E-wallets have grown rapidly over the past few years with more than 40 e-wallet licenses issued by Bank Negara Malaysia, which is among bank negara's initiatives to transform Malaysia into a cashless nation by 2020 with Mobile Payments (Bank Negara, 2019).

In addition, the government has provided various incentives such as the RM30 e-Tunai Rakyat initiative to Malaysians aged 18 and above as part of its campaign to encourage the use of e-wallets, this involves allocations. RM 450 million to promote digital culture and transition to a cashless society (Lim Guan Eng 2020). Islam never opposes the development of any new technology, rather it supports and promotes the use of the highest level of intelligence for the benefit of mankind. The goal of new technologies should be to improve human life, not to weaken the power of God. As long as there is no element of prohibition in Islam, the concept of Sharia in contemporary Muamalat transactions is halal.

The use of e-wallets is in line with the legal principle of fiqh that *"the norm of things is that which is permissible"* or *"al-aslu fi alashya al-ibahah"* (Al-Suyuti 1998), which states that the origin of everything in the case of muamalat is permissible. Therefore, any evolution or innovation that occurs must be taken into account according to the passage of time that is growing with the guidance of Shariah.

Research Background

E-wallets are a type of digital technology that is getting hot. When businesses like Touch' n Go e-Wallet and Shopee Pay started offering e-wallets, it started to become better known in Malaysia. The purpose of this study is to explain in more detail about the transactions used in Malaysia whether they comply with legal guidelines or not. In addition, examine more clearly the transactions using e-wallets against items that are prohibited in Islam, as well as clarify whether the bank is user-friendly and prosper the village community.

The location of the study in Alor Setar or also known as Alor Star in 2004-2008, is the capital of the state of Kedah, Malaysia. It is the administrative city and is also the second largest city in the state of Kedah after Sungai Petani, (took over the position in 2010. This area of Alor Setar which covers a land area of 666 km² (Square) is occupied by more than 400,000 thousand inhabitants according to the 2020 census which is one of the oldest cities in the area. The region also has potential in the tourism sector with its unique natural beauty (Jeremy, 2002).

Problem Statement

There is no denying that the Alor Setar area has a large number of residents. However, their awareness in using the e-wallet application is still lacking due to no specific notification and lack of information resources related to the system and the e-wallet facility itself. However, when we focus on Alor Setar Kedah, there is affected that may consider in the study of e-wallet usage physical accessibility. The availability of stores and retailers that accept payments via e-wallets should also be considered. Are local businesses in the Kedah desert ready to accept digital payments?

The impact of the development of modern technology that is growing provides a variety of benefits and benefits to users and facilitate their daily affairs. However, as a Muslim user, aspects related to Shariah law or said to be sharia-compliant in this technology should not be underestimated. To overcome this problem, the researcher will explain and give guidelines ensuring e-wallet are sharia compliant and also explain function of the National Fatwa Kedah. After that, recommendations for the authorities involved need to be specific Shariah Advisory panel for e-wallets and their functions to oversee all transactions all activities offer to users and merchants.

Literature Review

This study conducted by Mohd Aziz et al., (2021) involved surveying a group of suburban residents in Malacca to gather information about their familiarity and willingness to use e-wallets. This research aims to explore the willingness of suburban residents in Malacca to use e-wallets as a payment method. Participants were asked a series of questions to assess their knowledge and understanding of e-wallets, as well as their concerns and preferences regarding this payment method.

The results showed that the majority of suburban residents surveyed are familiar with e-wallets. They understand the basic concept of an e-wallet and how it works as a digital wallet to make payments. However, despite this familiarity, a large number of participants expressed concerns about the security of e-wallet transactions. When asked about their willingness to use e-wallets, the answers are mixed. Some participants were open to the idea and saw the convenience of using e-wallets for daily transactions. They emphasize the convenience of making payments without the need for physical cash or cards. On the other hand, some participants were skeptical and opted for traditional payment methods, such as cash or credit card.

The study also explored the factors that influence participants' willingness to use e-wallets. The most important factor is the availability of e-wallet services in their area. Participants stated that they would be more likely to use e-wallets if they were widely accepted by local businesses and if there were enough places to top up their e-wallet balances. In conclusion, this study shows the willingness of suburban residents in Malacca to use e-wallets as a payment method. While many participants are familiar with e-wallets, concerns about security and preference for traditional payment methods are clear. The availability and acceptance of e-wallet services in their area is an important factor affecting their willingness to use this digital payment method. As technology continues to advance, it is crucial for individuals to stay informed and adapt to new payment options such as e-wallets.

Next, according to a study conducted by Wan Ramlia et al., (2021). The discussion of this study is related to the structure and Shariah issues related to the implementation of e-wallets offered in Malaysia. The study also describes the definition, functions and differences between e-wallets and e-Money (electronic money). Analysis was made on the structure of the e-Wallet implementation model, the implementation of the contract in the e-Wallet application, the relationship between users, operators and e-Wallet traders as well as operational and Shariah issues related to the contract between the three parties involved in the implementation of the e-Wallet.

Based on the research conducted, several Shariah solutions and improvement proposals have been submitted such as the implementation of contracts, transactions involving non-Shariah compliant goods, the issue of placing user e-Wallet funds in trust accounts at conventional banking institutions as well as issues related to Rewards given to e-Wallet users.

From a Shariah perspective, the use of e-wallets is permissible as long as certain conditions are met. One of the main considerations is the concept of *riba*, which refers to the Prohibition of interest in Islamic finance. E-wallet providers must ensure that their platforms do not involve any form of interest-based transactions.

In addition, the concept of illegal activity should be taken into account. E-wallet providers should ensure that their platforms are not used for any illegal activities, such as gambling or buying prohibited items. They should have strict measures in place to prevent misuse of e-wallet systems as well as prioritise the security and privacy of users' personal and financial information. In conclusion, the use of e-wallets in Malaysia can be analysed from a Shariah point of view. E-wallet providers must adhere to Islamic financial principles, such as avoiding *riba* and *gharar*, preventing illegal activities, and prioritizing the security and privacy of user information. By meeting these requirements, e-wallets can become a convenient and allowed digital payment method in Malaysia.

Moreover, according to a study conducted by Mathanraj Naidu A/L Arumugam. This study aims to examine the factors involving the acceptance of e-wallets among students at University of Utara Malaysia (UUM). 181 UUM students were randomly selected to answer the survey. One of the main reasons students use e-wallets is the ease of Use and it gives them the opportunity to save money while making purchases as well as being able to track their expenses. They can easily view their transaction

history and monitor their spending habits. This helps them better manage their finances and make informed decisions about their purchases

However, there are still some students who have not used e-wallets. Some may prefer to use physical cash because they find it easier to keep track of their expenses. Others may have concerns about the security of e-wallets and prefer traditional payment methods. The study is also about safety and perceived social influence. Only a few research studies have attempted to explain the factors influencing e-wallets adoption with variables from the Technology Acceptance Model (TAM) and Unified Theory of Acceptance and Use of Technology (UTAUT). On the other hand, some researchers are investigating the way e-wallets are accepted in relation to security and trust. E-wallet service providers can use the results of this study to regain their services to attract more people to use e-wallets by considering improvising influencing factors. In conclusion, the use of e-wallets among students of University of Utara Malaysia is increasing. Ease of use, attractive promotions, security features, and ease of tracking expenses are some of the reasons why students use this digital payment method. While there are still those who prefer traditional payment methods, the trend towards e-wallets is expected to continue to grow in the future.

Methodology

Quantitative Studies

The purpose of the distribution of questionnaires is to collect information and feedback from specific respondents on the issue. Moreover, the questions listed in the questionnaire are the necessary information in the research. The main respondents in this study are people who live around the Alor Setar area. The questionnaire is distributed online via Google Form. This methodology is more time-saving and does not require high costs.

Qualitative Studies

This study uses a qualitative methodology that the researchers used the library and past study methods. Researchers have used library services in several places, namely the library of the Faculty of Syariah and Law, University of Sains Islam Malaysia Library, Alor Setar Kedah Library. Past studies should also be reviewed by researchers to support the title of the study and make it a reference source. It is important to note that this study does not repeat previous studies. It also aims to appreciate the scholarly writing of scholars in the same field as the study. Most of the research was done in the country. After the necessary reference materials are searched and found, the researcher begins to read and examine every information available in the references.

Results and Findings

According to the definition of the Central Bank (2021), e-Money is a payment instrument that stores the monetary value paid in advance by the consumer to the issuer of e-Money (EMI). E-Money can be used to make payments for the purchase of goods and services to merchants who accept e-Money as a means of payment. E-Money users can also send it (transfer) to other users' accounts or banks as well as receiving e-Money from other parties, all of which are through funds transfer services from one account to another with the permission of the e-Money manager (BNM, 2021).

Meanwhile, according to The Accountant General's Department of Malaysia, E-wallet is an electronic payment system that uses the DuitNow online banking or DuitNow QR facility in the real Time Retail Payment Platform ecosystem developed by PayNet. Works like a bank account, savings, debit or credit card in one network by using an application on a smartphone or smart device for payment purposes. E-wallets through smartphone applications are capable of recording all financial transactions via e-Money, debit or credit cards.

However, to carry out a transaction through an e-Wallet, without using a credit card and debit card, users need e-Money to ensure that the transaction is successful. Wan Nurliza et al., (2021) further added that based on the definition mentioned, there is a difference between e-Wallet and e-Money. E-Wallet acts as an electronic wallet that exists in the form of an application on a smartphone that stores all forms of payment instruments, not limited to e-Money, credit cards or debit cards and it records all forms of transactions carried out. Payment using e-Wallet can be executed by using e-Money, credit card or debit card. Users only need to scan the Quick Response (QR) code or by touching the card at the Paywave card payment terminal at the payment counter.

E-Money is an alternative to physical cash that serves as an electronic store of value. It can be in the form of a card and even an e-Wallet. The Touch 'n Go card is a form of e-Money. When the e-Wallet application was introduced Touch 'n Go also introduced Touch 'n Go e-Wallet. E-money is also used as a medium of payment paid to the issuer of e-Money and can be used for payment transactions to parties other than the issuer of the e-Money. Examples of card-based e-Money are BigPay, Aeon Wallet, and Merchantrade Money e-wallet. While examples of network-based e-Money, such as WeChat Pay, Grab Pay, Boost, Touch 'n Go e-wallets (Wan Nurliza et al., 2021)

Definition of Small Industry

The stability of a country's economy in facing the challenges of development trends is greatly influenced by global economic uncertainty. In fact, this uncertain global economic situation is a major challenge to the competitiveness of sustainable economic development. Small and medium industries that play a role in driving the country's economic development, for example, have received many negative impacts due to the uncertainty of the global economic environment coupled with the problem of financial financing facilities (financial loans) which are increasingly acute. Establishment Of Small Enterprise Bank.

Based on the report by the Ministry of International Trade and Industry (MITI), a small industry means a manufacturer with a paid-up capital of not more than RM0.5 million or having full-time employees of not more than 50 people. Medium industry, on the other hand, means ownership of assets ranging from RM0.5 million to RM2.5 million or having employees ranging from 50 to 199 people. With this, SMI is defined as an industry whose assets do not exceed RM2.5 million or the number of employees does not exceed 200 full-time employees (Mohd Asri, 1997).

E-wallet Challenges in Improving the Industry in Kedah

E-commerce is a new technology that cannot be separated from the challenges faced in trying to be developed and adopted by the public. The challenges and obstacles faced are happening all over the world, including users in Kedah.

- **Infrastructure:** Lack of infrastructure and competition with the mobile phone market may prevent widespread adoption of e-wallets. Uneven distribution of infrastructure and communication facilities that are not yet available in all corners of the country. This has been a major challenge to the government and its ability to ensure equitable development of infrastructure and communication facilities in all places. When adequate infrastructure and communication facilities are provided, economic transactions will be easier to conduct using e-wallets.
- **Consumer behavior:** Concerns about reckless spending behavior and the potential for multiple wallets to be used by customers can negatively impact e-wallet adoption
- **Security:** Attacks from viruses and other security threats can affect the trust and security of e-wallet users. Although electronic commerce is the choice of most users nowadays, the security factor during the purchase transaction continues to be the main topic of discussion in the matter. Security policy is also one of the important aspects of online shopping. According to Guo et al., (2012), security is defined as the ability of websites to protect customers' personal information from unauthorized use and disclosure during electronic transactions. This is because Malaysian Consumer Journal 73 security and privacy issues play an important role in developing trust in online transactions or websites (Chellappa, 2002). As a result, consumers

who have the potential to buy and transact are often deterred from doing so online because of their concerns about security.

- **Fraud** There are several payment methods used in e-commerce, including credit cards, debit cards, e-wallets, prepaid cards, Internet banking, and others. Consumers usually choose their type of payment options not only based on convenience but also based on security. Consumers' willingness to buy and visit online "*stores*" is also influenced by consumers' trust in providing personal information and payment security through credit card transactions (Whysall, 2000). Although online purchases are easy, users are also concerned about transaction security and data security when online purchases are made. Therefore, online merchants need to make payment procedures simple and safe to increase satisfaction levels to prevent fraud.
- **Regulations:** One of the challenges faced by the industry in using e-wallet as a payment system is due to the strict regulations and policies set by the e-wallet drafters. This is because there are very heavy conditions such as requesting industry documents and incoming and outgoing transactions. Policymakers and e-wallet service providers need to address the identified challenges and opportunities. Despite these challenges, e-wallets have the potential to significantly improve the industry in Kedah by promoting cashless transactions and digital payments. Various initiatives and collaborations have been implemented to encourage the use of e-wallets in urban and rural areas. However, addressing the challenges mentioned above is essential for the successful integration of e-wallets into the industry in Kedah.

As a developing country, the majority of its population does not have a good income or a high level of education. As a result there is a lack of awareness among them about the benefits and threats of using e-wallets; this is why the growth of the e-wallet market is slow. Raising awareness will require financial and technology literacy programs across the country that focus on the use and benefits of e-wallets.

The Prospect of E-wallet Development in the Kedah Industry

Although there are many challenges faced, traders' awareness of e-wallet is high. This is because, there are good prospects that the industry needs to take the opportunity to highlight the use of e-wallet in the payment system. Among the prospects that are advantages for using e-wallet are as follows:

- i. **Cashless Transactions:** E-wallets can facilitate cashless transactions, which can lead to greater convenience and efficiency in business operations.
- ii. **Financial Inclusion:** E-wallets can contribute to financial inclusion and provide easy access to financial services, which is beneficial for businesses and customers.
- iii. **Customer Service Management:** E-wallets offer opportunities for better customer service and the integration of promotional/loyalty programs, which can improve the overall customer experience.
- iv. **Rural Integration:** Efforts have been made to expand the use of e-wallets in traditional markets and rural areas, which shows the potential for wider integration across different sectors and regions. Although there are challenges to overcome, such as infrastructure, user behavior, and security concerns, the prospects for the use of e-wallets in the industry in Kedah are promising, especially with ongoing initiatives and increased use in various sectors.

Demographic Background of The Respondents

Descriptive analysis was used to obtain the demographic distribution of respondents, namely gender, age, and occupation.

Gender

This study has obtained 100 willing respondents who cooperated in responding to the distributed questionnaire. To provide a clearer picture of the overall study, the demographic details of the respondents are presented in this section in a detailed manner.

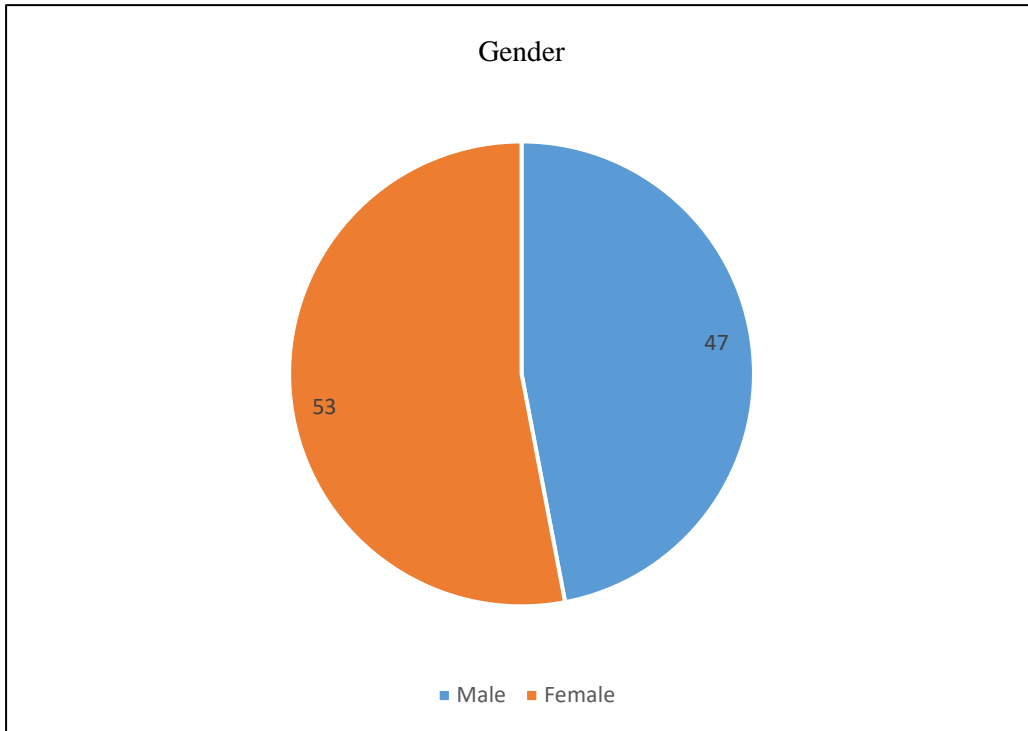


Chart 1: Information on the Distribution of Frequency and Percentages Based on the Gender Groups of the Respondents

Chart 1 illustrates information on the distribution of frequency and percentages based on the gender groups of the respondents. As a result of the analysis of the questionnaire conducted, it was found that the respondents consisted of women by 53 percent equal to 53% compared to men by 47 respondents equal to 47%. Based on the Chart 6.1, the number of male respondents is higher compared to the female respondents.

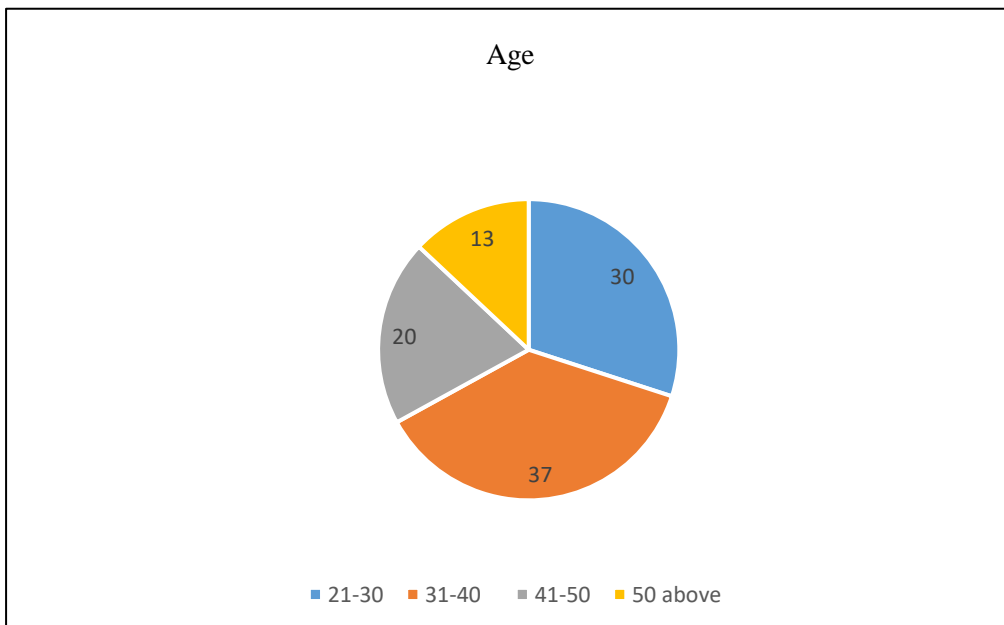


Chart 2: Information on the Distribution of Frequency and Percentages Based on the Age

Chart 2 illustrates respondents based on age among those involved in this study. The majority of respondents consist of aged 31-40, with a total of 37 respondents (37%), while the second highest remaining 30 respondents (30%) are aged 21-30. Then representing the third highest 20 respondents (20%) aged among 41-50 respondents. Lastly, the lowest position is aged between 50 and above with a total of 13 respondents equal to 30%. It can be concluded that the majority of age who responded to the author's questionnaire among aged 31-40.

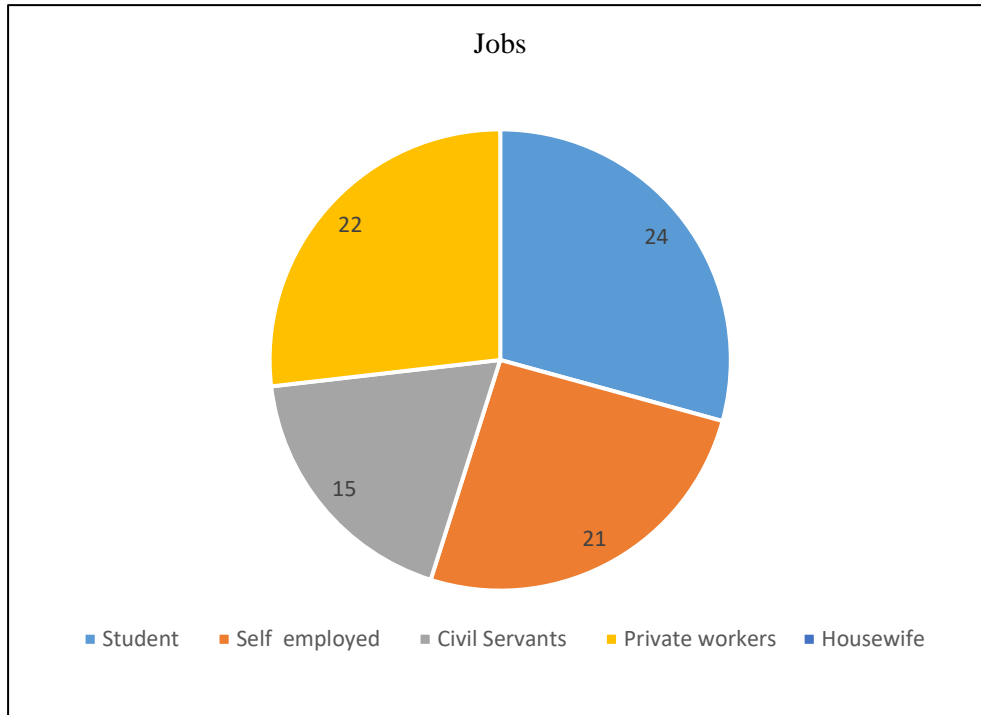


Chart 3: Information on the Distribution of Frequency and Percentages Based on the Jobs

Chart 5.3 shows information on the distribution of Jobs respondents. The employment of respondents from the student group also showed the highest respondents by 24 people equal to 24%. This is followed by respondents who work privately by showing as many as 22 people together with 22%. While self-employed as many as 21 respondents equivalent to 21%. In addition, the number of housewives as many as 18 respondents equals 18%. Finally, the lowest percentage is 15 respondents, which is 15%. It can be concluded that the majority of jobs who responded to the author's questionnaire are among students the minority.

Table 1: Types of knowledge acquisition and frequency of E-wallets usage

Type of finding	Yes	No	Number of respondents
Have you ever heard of e-wallets?	100	0	100
Do you use an E-Wallet?	79	21	100
In a week you must be going to use an E-Wallet if desperate?	47	53	100

The results of a questionnaire conducted to respondents on the knowledge and frequency of use of e-wallets for respondents named "Have you ever heard of payment using E-wallets", and this statement got the highest position with the number of 100 respondents equivalent to 100% said yes, ever heard. Next, the question "Do you use an E-wallet" and found that 78 respondents answered Yes equivalent to 79% while there were 21 respondents equivalent to 21% said no. The percentage value of saying yes to 47 people equals 47% while indicating no to 53 people equals 53% on the question that in a week you should be going to use e-wallets if desperate? This table shows the types of knowledge acquisition and frequency of E-Wallet usage.

Table 2: Types of e-wallet applications used

Type of finding	Yes	No	Percents %
Optical / QR code (Maybank Pay, Touch n Go E-Wallet)	30	0	100
NFC technology (Samsung Pay, Android Pay, Apple Pay)	18	0	100
Digital Delivery Technologies (Alipay, PayPal, Boost, GrabPay)	29	0	100
SMS verification based payment	0	0	100
None	23	0	100

As a result of the questionnaire analysis conducted it was found that the most frequently used type of E-Wallet application, namely optical / QR code (Maybank Pay, Touch n Go E-Wallet) by 30 people equals 30% . Next, followed by the second highest use of E-wallet applications, namely Digital Delivery Technology (Alipay, PayPal, Boost, GrabPay) with 29 respondents equivalent to 29% and there were also a handful of respondents who indicated that they did not use e-wallets in their daily routines. Finally, the lowest percentage of respondents who use NFC technology (Samsung Pay, Android Pay, Apple Pay) of 18 people equals 18%. Table 4.4 shows information on the type of e-wallet application used.

Table 3: Factor analysis of respondents using e-wallets

Type of Finding	Agree	Disagree	Not Sure	Percent (%)
Transaction process and daily affairs become easy and fast	80	20	0	100
The process of entry and exit of money can be easily traced	74	17	9	100
user-friendly E-wallet usage	100	0	0	100
The use of e-wallets can be easily controlled and monitored	100	0	0	100
The use of E-wallets can save the cost of	60	0	40	100

As a result of the analysis of the questionnaire on the perception of respondents on the use of E-Wallet found the highest number of respondents on two types of findings, namely “*the use of user-friendly E-wallet*” and “*the use of e-wallet can be controlled and monitored easily*” as many as 100 respondents equivalent to 100% agree. Meanwhile, the perception of respondents on “*the process of transactions and daily affairs to be easy and fast*” as many as 80 equivalent to 80% of respondents agreed and 20 respondents equivalent to 20% disagreed. Furthermore, the perception of respondents on the process of money in and out can be easily traced as many as 74 respondents equal to 74% agree, while 17 equal to 17% disagree and 9 respondents equal to 9% indicate uncertain. Finally, the perception of respondents to the finding that “*the use of E-wallets can save costs*” as many as 60 respondents equivalent to 60% agreed while 40 respondents equivalent to 40% said they were not sure. Table 4.4 shows an analysis of respondents' perceptions of E-wallet usage.

Table 4: Risks and challenges of using e-wallets

Type of Finding	Agree	Disagree	Not Sure	Percent %
I believe e-wallets are 100% safe to use	100	0	0	100
I lack confidence in the use of e-wallets	10	90	0	100
I believe my personal information is vulnerable with e-wallet	80	0	20	100
I believe e-wallets can reduce the risk of money robbery by	100	0	0	100
I believe the use of E-wallets can protect customers' financial information	80	0	20	100
As a Muslim, I am sure this e-wallet complies with the prescribed Shariah	70	10	20	100

As a result of the analysis of the questionnaire conducted it was found that the risks and challenges of using e-wallets for the “I believe e-wallets are safe to use” as many as 100 respondents “agree” while the “I believe e-wallets can reduce the risk of money robbery” also as many as 100 respondents “agree”. In addition, the findings were “I believe my personal information is vulnerable with e-wallets, 80 respondents “agreed” while 20 respondents were a “not sure”. Furthermore, the survey findings on “I believe the use of E-wallets can protect customer financial information” as many as 80 respondents were “not sure” while 20 respondents were “not sure”. Finally got, the lowest finding was “I lack confidence in the use of e-wallets” with 10 respondents “not sure” while 90 respondents were “not sure”. Table 4.5 shows information on the types of risks and challenges of using e-wallets.

In conclusion, it is natural that these steps must be continued in order to further develop entrepreneurs among Islamic industry traders. Indirectly, the researcher agrees with the statements and data obtained from informants and respondents.

Conclusion

The study of e-wallet and its prospects and challenges among small-scale industrial entrepreneurs in Alor Setar, Kedah is important because it can give an insight into the use of financial technology among local entrepreneurs. E-wallets are a rapidly growing area of the economy, and this study can provide insight into their potential growth at the local level. In addition, it can also identify challenges that need to be overcome to ensure the successful adoption of e-wallets among small industry. With increasing awareness of the importance of the use of e-wallets, this study can make a significant contribution to the development of the local economy.

The importance of raising awareness on the e-Wallet digital payment platforms is important not only to consumers, e-Wallet operators and merchants but also to all members of the community especially. Proactive measures need to be spearheaded by the authorities to establish e-Wallet platform transaction model as one of the initiatives to support the transformation of digital transactions that will not only provide convenience and comfort to consumers, but also to merchant companies that are able to compete professionally in providing daily necessities products and services to customers.

Recommendations

To increase the issuance and use of e-wallets that are not Shariah compliant, several suggestions and improvements can be considered in further expanding the use of E-wallets so that they follow the guidelines set and do not violate Shariah.

Preparing a list of illegal goods:

e-wallets can provide a list of illegal goods and restrict the use of e-wallets for the purchase of goods that do not violate Shariah.

Develop technology to identify illegal goods:

E-wallets can develop technology to identify illegal goods and prevent the use of e-wallets for the purchase of goods that are not Shariah compliant such as when scanning the barcode provided, the transaction will be directed and not accepted.

Increase user awareness:

E-wallets can increase consumer awareness of illegal goods and provide education on the use of Shariah-compliant e-wallets such as providing a special course for industries to participate annually.

Cooperation with other parties:

Working with other parties such as the government, banks Jakim and community members, can help develop Shariah-compliant e-wallet services and achieve development goals.

Develop an easily accessible e-wallet service:

Developing an e-wallet service that is easily accessible and has attractive features can attract Surface users to use the service and limit the use of e-wallets for purchases of goods that are not Shariah compliant. By taking appropriate measures, e-wallets can ensure that their use does not violate Sharia and meets the needs of the community.

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