

Implementation System Finance Sharia in Banking Institutions Islam

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ABSTRACT

KEYWORDS

Islamic financial system,
Islamic banking, sharia
principles, sharia
contracts, economic
justice

ARTICLE INFO

Accepted:2025-07-07
Revised:2025-08-18
Approved:2025-09-20

The Islamic financial system is an integral part of the Islamic economic system that regulates financial activities based on the principles of justice, transparency, and social responsibility, while prohibiting usury (interest), gharar (uncertainty), and maisir (speculation). This article aims to examine the implementation of the Islamic financial system in Islamic banking institutions, focusing on its legal foundations, core principles, and economic impacts. The research method employed is library research by reviewing relevant literature, including textbooks, academic journals, statutory regulations, and fatwas issued by the National Sharia Council of the Indonesian Ulema Council. The findings indicate that Islamic banking implements the Islamic financial system through sharia-compliant contracts such as mudharabah, musyarakah, murabahah, and ijarah. This system promotes fair partnership relationships between banks and customers, enhances transparency, strengthens financial stability, and contributes to greater financial inclusion and social welfare. Therefore, the Islamic financial system demonstrates strong potential as an ethical, just, and sustainable alternative to conventional financial systems.

INTRODUCTION

The Islamic financial system is part of the Islamic economic system that regulates financial activities based on sharia values (Hassan & Aliyu, 2023). This system exists as an alternative to the conventional financial system, which relies on interest as a source of profit (Abduh & Azmi, 2022). In Islam, the practice of interest, or *riba*, is prohibited because it is considered to create injustice and harm one of the parties in an economic transaction (Hanif, 2024; Rashid et al., 2023).

The development of Islamic banking demonstrates that the Sharia financial system is attractive not only to Muslims but also to the general public (Ahmed et al., 2024). This is because the Sharia financial system offers principles of fairness, transparency, and a more balanced risk-sharing between banks and customers (Billah, 2023; Waemustafa & Sukri, 2022). With these principles, Islamic banking is expected to create a more stable and ethical financial system (Rabbani et al., 2023).

Therefore, a discussion of the implementation of the Sharia financial system in Islamic banking institutions is crucial for academic understanding (Shaikh et al., 2024). This study aims to: (1) analyze the fundamental principles underlying the implementation of the Sharia

financial system in Islamic banking institutions (Alam et al., 2023); (2) examine the contractual mechanisms that ensure compliance with Sharia principles in banking transactions (Asutay & Harningtyas, 2022); (3) evaluate the risk-sharing mechanisms between banks and customers in the Islamic financial framework (Khan & Bhatti, 2023); and (4) assess the contribution of Islamic banking practices to overall financial system stability (Ozili, 2023).

The Sharia financial system emphasizes that every financial activity must be based on a clear contract and comply with Sharia principles (Laldin & Furqani, 2023). This clarity of the contract aims to avoid uncertainty and potential fraud in transactions (Hidayat et al., 2024). With a contract agreed upon from the outset, the rights and obligations between the bank and the customer are more transparent, thus minimizing future conflicts (Aziz & Afaq, 2023; Nawaz & Bardai, 2022).

Furthermore, the Islamic financial system encourages fair risk sharing between the parties involved (Mirakhor & Askari, 2023). In Islamic banking, profits and losses are not borne solely by one party but are shared according to a predetermined agreement (Hassan & Mahlkecht, 2024). This principle differs from conventional systems, which tend to shift the risk burden to the customer (Iqbal & Molyneux, 2023). This risk sharing reflects the value of fairness, a fundamental principle of Islamic economics (Chapra, 2022; El-Gamal, 2023).

Understanding the implementation of the Sharia financial system in Islamic banking provides multiple benefits across different stakeholder levels (Yusof & Bahlous, 2024). For academic researchers, this study contributes to the theoretical development of Islamic economics and finance, offering empirical insights into how religious principles can be operationalized in modern financial institutions (Saiti et al., 2023). For practitioners and banking professionals, the findings provide practical guidance on implementing Sharia-compliant products and services while maintaining competitive advantage in the financial market (Alharbi, 2023; Shaikh et al., 2022). For policymakers and regulators, this research offers evidence-based recommendations for developing regulatory frameworks that support both Islamic and conventional banking systems (Hasan & Dridi, 2023). Additionally, for the general public and potential customers, this study enhances understanding of alternative banking options that align with ethical and religious values while providing competitive financial services (Ahmed & Khan, 2024).

The implementation of the Islamic financial system also contributes to financial system stability (Beck et al., 2023). Because transactions are based on real business activities, Islamic banking is relatively more resilient to economic turmoil caused by excessive speculation (Kabir et al., 2024; Rashid & Jabeen, 2023). This makes the Islamic financial system not only religiously relevant but also economically beneficial in supporting sustainable development (Arshad et al., 2023; Mohieldin et al., 2022).

Thus, the Islamic financial system serves not only as a financial mechanism but also as a means to build an ethical economic order (Ayub, 2023). The implications of this study extend across theoretical, practical, and policy dimensions (Warde, 2024). Theoretically, this research contributes to the discourse on alternative economic systems by demonstrating how faith-based principles can inform contemporary financial practices while achieving economic efficiency (Asutay, 2023; Siddiqui, 2024). The findings challenge the conventional assumption that

interest-based systems are the only viable model for financial intermediation, thereby expanding the theoretical boundaries of financial economics (Smolo & Hassan, 2023).

From a practical perspective, the study's findings have direct implications for the operational strategies of Islamic banking institutions, particularly in product development, risk management, and customer relationship management (Hassan et al., 2024). The emphasis on contractual clarity and risk-sharing mechanisms provides a framework for designing innovative financial products that are both Sharia-compliant and commercially competitive (Abdullah & Chee, 2023; Mansour et al., 2024). For the broader financial industry, the principles of transparency, fairness, and asset-backed transactions identified in this study offer valuable lessons for enhancing ethical practices and reducing systemic risks (Dusuki, 2023; Zaher & Kabir Hassan, 2022).

At the policy level, this research has important implications for financial regulation and supervision (Grassa & Gazdar, 2023). The distinct characteristics of Islamic banking—particularly the prohibition of interest and the requirement for asset-backed transactions—necessitate tailored regulatory approaches that differ from conventional banking frameworks (Archer & Karim, 2023; Sundararajan et al., 2024). Understanding these differences is essential for regulators to develop appropriate capital adequacy requirements, liquidity management standards, and consumer protection measures that accommodate both Islamic and conventional banking systems within a dual-banking environment (Errico & Farahbaksh, 2023; Rahman & Masih, 2024).

Socially and economically, the application of Islamic values in Islamic banking is expected to create a balance between economic goals and social responsibility, thereby providing broad benefits to society (Ahmad et al., 2024). The emphasis on ethical finance, financial inclusion, and equitable wealth distribution has implications for poverty alleviation, sustainable development, and social cohesion (Mohd Nor & Ullah, 2023; Zulkhibri, 2023). By offering banking services that align with religious and ethical values, Islamic banking expands access to formal financial systems for populations who might otherwise exclude themselves on religious grounds, thereby promoting greater financial inclusion and economic participation (Demirguc-Kunt et al., 2024; Naceur et al., 2023).

METHOD RESEARCH

The research method used in this article is library research. The study was conducted by reviewing various written sources relevant to the topic of Islamic financial systems and Islamic banking. Data sources include Islamic banking textbooks, scientific journals, laws and regulations, and fatwas from the National Sharia Council of the Indonesian Ulema Council. The data obtained were analyzed descriptively to conceptually illustrate the application of Islamic financial systems in Islamic banking institutions.

The research method used in this article is library research, which focuses on collecting and analyzing data from various written sources relevant to the topic. This research does not involve field data collection, but instead emphasizes the analysis of concepts and theories proposed by experts in Islamic finance and banking.

The data sources used include Islamic banking books, scientific journals discussing the Islamic financial system, laws and regulations governing Islamic banking in Indonesia, and fatwas from the National Sharia Council of the Indonesian Ulema Council. These sources were selected because of their high level of accuracy and relevance to the study of the Islamic financial system.

Data collection techniques were conducted by reading, recording, and categorizing information related to the principles of the Islamic financial system, Islamic banking contracts, and the operational mechanisms of Islamic banking institutions. The information obtained was then systematically organized to facilitate the analysis process. Data analysis was conducted using a qualitative descriptive approach. The collected data were analyzed by explaining, comparing, and interpreting various concepts related to the Islamic financial system. The results of this analysis were used to describe the implementation of the Islamic financial system in Islamic banking institutions theoretically and conceptually.

This library research method aims to gain a deep understanding of the Islamic financial system without conducting field research. With this method, the article is expected to provide a comprehensive and objective picture of the implementation of the Islamic financial system based on a review of credible literature.

In this literature research, the author conducted a systematic source selection process to ensure the quality of the data used. The selected literature is based on sources directly related to the Islamic financial system and Islamic banking, both in theory and practice. This selection ensures that the data used will provide an accurate and academically sound picture.

The research process began by identifying key concepts related to the Islamic financial system, such as basic principles, Islamic contracts, and the operational mechanisms of Islamic banking. The author then reviewed various expert perspectives to identify similarities and differences in thinking regarding the implementation of the Islamic financial system. This process was undertaken to gain a more comprehensive and in-depth understanding.

Next, the collected data was analyzed by linking the theory and practice of implementing the Islamic financial system in Islamic banking. This analysis was conducted by critically interpreting the literature and then organizing it into a coherent and logical description. This approach helped the author explain how the concept of the Islamic financial system is actually applied in Islamic banking institutions.

To ensure data validity, the author compared information obtained from various sources. This technique ensured that the discussion was not based on a single perspective but supported by several relevant references. This resulted in a more objective analysis and a strong theoretical basis.

This research method was chosen because it was deemed most appropriate for examining the topic of the Islamic financial system conceptually and theoretically. Through library research, this article is expected to provide a deeper understanding of the Islamic financial system and its application in Islamic banking without the need for field research.

RESULT AND DISCUSSION

Based on the results of the literature review, it is clear that the implementation of the Sharia financial system in Islamic banking institutions is comprehensive, from basic principles to products and operational mechanisms. This system is designed to ensure that all financial activities comply with Sharia values and provide economic and social benefits to the community.

The study results show that Islamic banking does not use interest as a source of profit, but instead implements legitimate sharia contract mechanisms. Contracts such as mudharabah and musyarakah are used for cooperative and profit-sharing financing, while murabahah and ijarah are used for sale and lease transactions. Through these contracts, profits are derived from real and lawful business activities, not from usury.

Furthermore, the implementation of the Sharia financial system in Islamic banking emphasizes the principles of fairness and transparency. Each contract used must be clearly agreed upon by both parties, including the object of the transaction, profit sharing, and potential risks. This transparency is crucial to avoid ambiguity and foster mutual trust between the bank and its customers.

In terms of risk management, the Islamic financial system encourages balanced risk sharing. Both the bank and the customer share the risk according to the agreed contract. This differs from conventional banking systems, which tend to shift the risk to the customer. This risk sharing creates a fairer partnership between the bank and the customer.

The discussion also shows that Islamic banking has a significant social role. In addition to its commercial function, Islamic banks are also involved in managing social funds such as zakat (alms), infaq (donations), and sedekah (charity). This role strengthens Islamic banking as an institution that focuses not only on profit but also on the well-being of society.

The study also shows that the Islamic financial system encourages more prudent and responsible financing practices. In Islamic banking, financing disbursement is based not only on the customer's repayment capacity, but also on the feasibility of the business and the halal nature of the financed activity. This approach aims to minimize the risk of non-performing financing and ensure that disbursed funds are truly used for productive activities.

From a financial stability perspective, the implementation of the Islamic financial system is considered capable of reducing the risk of crises caused by excessive speculation. Because transactions must be supported by tangible assets or business activities, Islamic banking is relatively better protected from unhealthy financial practices. This indicates that the Islamic financial system has the potential to create a more stable financial system in the long term.

Furthermore, the study results indicate that public trust is a crucial factor in the successful implementation of the Islamic financial system. Compliance with Islamic principles, overseen by the Sharia Supervisory Board, ensures that bank operations are in accordance with Islamic values. This trust contributes to increased public interest in using Islamic banking products and services.

This discussion also found that the Islamic financial system contributes to promoting financial inclusion. Through partnership-based financing products, Islamic banking opens access to capital for small and medium-sized businesses that often struggle to obtain financing

from conventional banks. Thus, Islamic banking plays a role in expanding access to financial services for the public.

Overall, the implementation of the Islamic financial system in Islamic banking impacts not only the financial aspect but also social and economic aspects. This system encourages the creation of fairer, more transparent financial relationships oriented towards the common good. Therefore, the Islamic financial system has strong relevance for continued development in facing the challenges of the modern economy. Thus, the implementation of the Islamic financial system in Islamic banking institutions has proven capable of creating a more ethical, stable, and equitable financial system. This system is not only religiously relevant but also has economic value that can support sustainable development.

Legal Basis of the Sharia Financial System

The implementation of the Islamic financial system in Indonesia has a clear legal basis. One of the primary legal bases is Law Number 21 of 2008 concerning Islamic Banking. This law regulates the principles, business activities, and supervision of Islamic banking to ensure it operates in accordance with Islamic law and state regulations.

In addition to laws, the implementation of the Islamic financial system is also based on fatwas issued by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). These fatwas serve as guidelines for Islamic banks in determining the halal status of products and the contracts used. This legal basis provides Islamic banks with a strong foundation for their operations.

Furthermore, the legal basis of the Islamic financial system is strengthened by implementing regulations issued by financial authorities, such as the Financial Services Authority (OJK) and Bank Indonesia. These regulations govern the technical aspects of operations, supervision, and risk management of Islamic banking. These regulations aim to ensure that Islamic banking practices not only comply with Islamic principles but also meet prudential standards and the stability of the national financial system.

On the other hand, fatwas issued by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) play a crucial role in the implementation of the Islamic financial system. DSN-MUI fatwas serve as the primary reference for determining the validity of Islamic banking contracts and products. Every new product developed by Islamic banks must comply with these fatwas to avoid elements prohibited by Islam, such as usury, gharar, and maisir.

The legal basis of the Islamic financial system is also strengthened by the existence of a Sharia Supervisory Board (SSB) at every Islamic banking institution. The SSB is tasked with overseeing the implementation of DSN-MUI fatwas in bank operations. This oversight ensures sustainable Sharia compliance and enhances public trust in Islamic banking.

Overall, the combination of laws, financial authority regulations, fatwas from the National Sharia Council (DSN-MUI), and oversight by the Sharia Supervisory Board (SBSC) form a comprehensive legal framework for the Islamic financial system in Indonesia. This legal framework serves as a crucial foundation for supporting the development of healthy, stable, and sharia-compliant Islamic banking.

Main Principles of the Islamic Financial System

The primary principle of the Islamic financial system is the prohibition of usury (riba). Furthermore, this system prohibits gharar, or ambiguity in contracts, and gambling (maysir) containing elements of speculation. These principles aim to protect all parties involved in transactions.

The Islamic financial system also emphasizes the principles of justice and cooperation. Profits and risks are shared fairly according to the agreement. Thus, no party is disadvantaged.

In addition to prohibiting usury, gharar, and gambling (maisir), the Islamic financial system also emphasizes the importance of ensuring the object of a transaction is lawful. Every financial activity must involve goods or services that are lawful and beneficial to society. This principle aims to ensure that economic activities do not conflict with Islamic values and have a positive impact on social life.

The Islamic financial system also prioritizes the principle of transparency in every contract. All provisions, such as payment mechanisms, profit sharing, and potential risks, must be openly explained to all parties involved. This transparency of information allows customers to clearly understand their rights and obligations, fostering trusting financial relationships.

Furthermore, the Islamic financial system places social responsibility as part of its fundamental principles. Islamic financial institutions focus not only on profit but also on community welfare. This is reflected in their support for small businesses, management of social funds, and financing oriented towards the public good.

The principle of prudence is also a crucial element of the Islamic financial system. Every financing decision must be subject to careful analysis to avoid excessive risk. With this principle, the Islamic financial system is expected to foster financial stability and prevent detrimental economic practices.

By implementing these principles, the Islamic financial system functions not only as a mechanism for financial transactions but also as a means to build a just, ethical, and sustainable economic system. These principles serve as the primary foundation for the operations of Islamic financial institutions, particularly Islamic banking.

Impact of Implementing the Sharia Financial System

The implementation of the Islamic financial system has a positive impact on the economy. This system encourages a cooperative relationship between banks and customers, rather than simply a creditor-debtor relationship. Thus, risks and profits are shared equitably.

Furthermore, the Islamic financial system also contributes to increasing financial inclusion. Through Islamic-based financing, people who previously had difficulty accessing banking services can gain opportunities to develop businesses and improve their standard of living.

The implementation of the Islamic financial system also plays a role in creating financial system stability. Because transactions are based on real economic activity and not speculative, the risk of a financial crisis can be reduced. Islamic banks tend to be more cautious in disbursing financing so that the funds are used productively and contribute to real economic growth.

In addition to stability, the Islamic financial system encourages the growth of the micro, small, and medium enterprise (MSME) sector. Profit-sharing financing schemes provide

businesses with the opportunity to grow without the burden of fixed interest payments. This helps MSMEs operate more healthily and sustainably.

Another positive impact is seen in the equitable distribution of social welfare. Based on the principles of justice and social responsibility, Islamic financial institutions are not solely focused on specific economic groups but also consider low-income communities. This inclusive financing has the potential to reduce economic disparities and improve welfare broadly.

The Islamic financial system also contributes to building better business ethics. The values of honesty, trustworthiness, and responsibility form the foundation of every transaction. With these values, the relationship between banks and customers is not merely contractual, but also based on trust and integrity.

With these various positive impacts, the implementation of the Islamic financial system can be one solution in creating an economic system that is fairer, more stable, and oriented towards the welfare of society as a whole.

CONCLUSION

The Islamic financial system is a vital component of the Islamic economic system, regulating financial activities based on the principles of justice, transparency, and social responsibility. Unlike conventional financial systems, this system prohibits *riba* (usury), *gharar* (gharar), and *maisir* (gambling), and emphasizes the equitable distribution of risks and profits through various Islamic contracts.

The implementation of the sharia financial system in Islamic banking institutions has had a positive impact on the economy. With a strong legal basis and the support of the DSN-MUI fatwa, the sharia financial system in Indonesia has great potential to continue to develop and contribute to creating a fair, stable, and sustainable financial system.

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Hawalah – Kajian Ilmu Manajemen, Ekonomi dan Bisnis



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