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Reconstruction of the Concept of Bank Interest in Islamic Economic Law: Normative Approach and Implementation in Islamic Financial Institutions to Increase Financial Inclusion

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Article Information	Abstract
E-ISSN : 3026-6874 Vol: 2 No : 11 November 2024 Page : 163-169 ***Keywords:*** *Bank Interest, Islamic Economic Law Reconstruction*	*This study aims to reconstruct the concept of bank interest from the perspective of Islamic economic law, focusing on the normative approach and implementation in Islamic financial institutions. Bank interest is often a controversial issue in the Islamic financial system because it is considered inconsistent with Islamic principles. This article offers a new model that can increase financial inclusion through the development of Islamic financial products based on Islamic values. The results of the study indicate that the reconstruction of the concept of bank interest can provide a strategic solution to strengthen the competitiveness of Islamic financial institutions while supporting the goal of global financial inclusion.*

Abstrak

Penelitian ini bertujuan untuk merekonstruksi konsep bunga bank dalam perspektif hukum ekonomi Islam, dengan fokus pada pendekatan normatif dan implementasi di lembaga keuangan syariah. Bunga bank sering menjadi isu kontroversial dalam sistem keuangan Islam karena dianggap tidak sesuai dengan prinsip syariah. Artikel ini menawarkan model baru yang mampu meningkatkan inklusi keuangan melalui pengembangan produk keuangan syariah berbasis nilai-nilai Islam. Hasil penelitian menunjukkan bahwa rekonstruksi konsep bunga bank dapat memberikan solusi strategis untuk memperkuat daya saing lembaga keuangan syariah sekaligus mendukung tujuan inklusi keuangan global yang berkelanjutan.

Kata Kunci: *Bunga Bank, Hukum Ekonomi Islam, Rekonstruksi*

INTRODUCTION

The issue of bank interest is one of the main challenges in the development of the Islamic financial system. In Islamic economic law, interest is categorized as riba, which is strictly prohibited because it is contrary to the principles of justice, equality, and economic balance. This prohibition is based on the teachings of the Qur'an and Hadith which emphasize the importance of fair transactions as well as freedom from exploitation or uncertainty. Therefore, Islamic financial institutions are required to offer alternatives that are not only in accordance with sharia values, but can also compete with the conventional financial system. (Suardi, 2019) (Qordhowi , 2021)

On the other hand, the need for financial inclusion is increasingly urgent in the context of globalization and economic development. Financial inclusion aims to provide access to financial services to all levels of society, including previously marginalized groups. However, the dominating bank interest system is often an obstacle, especially for Muslim communities who are committed to avoiding usury. This raises an urgent need to reconstruct the concept of sharia-compliant finance, so that it can reach more people without violating their religious principles. (Hardiati et al., 2021a)

Innovative sharia-based approaches, such as mudharabah, musyarakah, and murabahah, are potential solutions in overcoming this challenge. These instruments not only provide an alternative to bank interest, but also encourage a fair sharing of risk and benefit between the parties involved. In addition, the use of sharia financial technology (fintech) is increasingly relevant in reaching underserved populations, especially in regions with limited financial access. Thus, the development of a sharia-based financial system can be a catalyst to encourage inclusive economic growth. (Kholijah , 2020)

To support the success of this transformation, regulations and policies that support the implementation of sharia values in financial institutions are needed. Governments, regulators, and industry players need to work together to create a supportive ecosystem. This step will not only strengthen the competitiveness of Islamic financial institutions in the global market, but also make a real contribution to the broader goal of financial inclusion. The reconstruction of the concept of bank interest, if applied effectively, has great potential to create a fairer and more sustainable financial system. (Hardiati et al., 2021b)

METHOD

This research uses a normative approach with analysis of related legal and policy documents, as well as a qualitative approach to explore implementation in Islamic financial institutions. Primary data were collected through interviews with sharia practitioners, regulators, and academics. (Mulyana et al., 2024)

RESULTS AND DISCUSSION

1. Normative Approach to the Bank Interest Concept

The principles of Islamic economic law emphasize the prohibition of usury and encourage the practice of fair muamalah as the main foundation in the Islamic financial system. The prohibition of riba aims to prevent economic injustices that often arise due to interest practices, where borrowers tend to be harmed by increasing payment obligations. Instead, Islamic law encourages a transaction model based on cooperation, risk sharing, and transparent profit. This is realized through contracts such as mudharabah (profit sharing) and musharakah (capital cooperation), which not only comply with sharia principles but also create a mutually beneficial relationship between the parties involved. (Suardi , 2019).

In addition, the principle of justice in muamalah also includes the prohibition of gharar (uncertainty) and maysir (excessive speculation) in financial transactions. By avoiding these elements, Islamic economic law ensures that all parties have clear and equal information in the transaction process. This concept provides a foundation for the development of more stable and sustainable financial instruments. For example, products such as ijarah (rent-lease) and murabahah (buying and selling with profit margins) are designed to create a safer and more accessible financing structure for the wider community without involving interest. (Romdhoni et al., 2012).

In the modern context, the application of these principles also encourages innovation in the development of shharia-based financial technology. Islamic fintech not only provides solutions that comply with Islamic law, but also expands the reach of financial services to populations that are not served by the conventional financial system. For example, mudharabah-based sharia crowdfunding platforms or productive waqf allow people to participate in sharia-compliant economic activities while supporting social development. With this holistic approach, the principles of Islamic economic law are not only relevant but also increasingly significant in creating a more inclusive and equitable financial system. (Alifah et al., 2023)

Alternatives such as mudharabah and musharakah have proven to be effective in replacing the interest function of banks because they both offer financing structures based on the principles of profit sharing and cooperation. In the mudharabah scheme, the capital owner (shahibul mal) and the business manager (mudharib) share the profits based on the initial agreement, while the loss is fully borne by the capital owner, unless the loss occurs due to negligence or violation by the manager. This model encourages managers to work optimally while providing space for capital owners to contribute to productive activities without involving the element of interest. (Elisa & Hidayat, 2023).

Meanwhile, musharakah operates as a capital cooperation between two or more parties who share profits and losses in accordance with the portion of their respective capital contributions. The concept provides flexibility in various types of businesses, from large project financing to micro enterprises, and reflects the values of justice and cooperation that are at the core of Islamic economic law. On the other hand, musharakah also encourages joint risk management, which can create financial stability in the midst of market fluctuations. These two models, with the principles of openness and cooperation, make them effective tools to replace bank interest in various transactions. (Riswan et al., 2020)

In addition, the implementation of mudharabah and musharakah in Islamic financial institutions has become an important pillar in competitive financial product innovation. An example is sharia-based small and medium enterprise (SME) financing that uses these two schemes to provide access to financing without violating religious principles. In the context of financial inclusion, this approach is very relevant because it can reach segments of society that are often overlooked by the conventional financial system. With the successful implementation of mudharabah and musharakah, Islamic financial institutions are able to create a more inclusive, fair, and sustainable financing ecosystem. (Hardiati et al., 2021)

2. Implementation in Sharia Financial Institutions

Islamic financial institutions have succeeded in integrating sharia values in financing products such as murabahah and ijarah, which provide alternative financing solutions in accordance with Islamic legal principles. Murabahah, or a contract of sale and purchase with an agreed profit margin, became one of the most popular products because of its simplicity. In murabahah, Islamic financial institutions buy goods needed by customers and resell them with additional transparent profit margins. This transaction does not involve interest, so it is in accordance with the prohibition of usury. This product is widely used for financing homes, vehicles, or small and medium-sized business needs, thus supporting the growth of the real sector significantly. (Mulyani & Patriani, 2023)

In addition to murabahah, ijarah, which is a lease agreement, is also one of the main instruments in sharia financing. In this scheme, financial institutions lease assets to customers for a certain period of time with agreed rent payments. After the lease period is completed, the asset can be returned or sold to the customer through the ijarah muntahia bittamlik (lease with ownership option) mechanism. This product is often used to finance large assets such as property or heavy equipment, which provides flexibility for customers while maintaining compliance with sharia principles. (Rini et al., 2021)

The successful implementation of products such as murabahah and ijarah is inseparable from strict supervision of sharia compliance, both by the internal sharia supervisory board and external authorities. This ensures that every transaction not only complies with Islamic law but also meets the standards of professionalism and transparency in financial services. In addition, innovations in this product, such as the digitization of murabahah and ijarah services through sharia fintech platforms, further expand public access to sharia-based financing. (Hardiati & Anwar, 2021) .

The integration of sharia values in these products also has a positive impact on public trust in Islamic financial institutions. By offering financial solutions that are not only in accordance with religious principles but also economically competitive, Islamic financial institutions are able to attract customers from various backgrounds. This not only strengthens the position of Islamic financial institutions in the domestic market but also increases their competitiveness at the global level.

The main challenge in the development of Islamic financial institutions is to increase Islamic financial literacy among the public to attract more customers. Many people, including those in Muslim-majority countries, still have a limited understanding of the basic principles of Islamic finance such as the prohibition of riba, gharar, and maysir, as well as the advantages of Islamic financial products such as murabahah, ijarah, and musharakah. This ignorance often makes people tend to opt for more wellknown conventional financial services, even though they have a preference for products that conform to Islamic values. (Nur, 2021)

The low literacy of Islamic finance also has an impact on the lack of understanding of the long-term benefits of the sharia-based financial system. Many mistakenly believe that sharia products are only labeled differently from conventional products or are considered more expensive and less flexible. To overcome this perception, intensive and comprehensive educational efforts are needed through various media, seminars, trainings, and collaborations with educational institutions to include Islamic finance materials in the formal curriculum. (Rahmi et al., 2024)

On the other hand, the role of technology is also very important in improving Islamic financial literacy. Digital platforms, such as sharia-based financial applications and social media, can be used to convey information widely and efficiently. Video tutorials, interactive articles, and simulations of sharia transactions can help people understand the concepts of sharia finance more easily. In addition, digital-based public campaigns that highlight the economic and spiritual benefits of the Islamic financial system can be an effective strategy to reach the younger generation who are more tech-savvy. (Wany et al., 2019)

To accelerate the improvement of Islamic financial literacy, collaboration between the government, regulators, Islamic financial institutions, and community organizations is urgently needed. Financial inclusion programs integrated with sharia literacy campaigns can help reach a wider segment of society, including vulnerable groups such as women, small entrepreneurs, and rural communities. With better literacy, people will be more confident and interested in using Islamic financial services, thereby strengthening the overall Islamic financial ecosystem. (Nurrohmah & Purbayati, 2020)

3. Increased Financial Inclusion

The reconstruction of the bank interest concept provides a significant opportunity to support global financial inclusion targets, especially in Muslim-majority countries. Financial inclusion aims to ensure that all levels of society, including those not served by the formal financial system, can access safe, efficient, and affordable financial services. In many countries with a majority Muslim population, the inability to access conventional financial services is often due to a limited understanding of interest and riba, which are considered haram in Islam. By replacing the interest system based on riba with alternative financing that is in accordance with sharia, such as mudharabah, musyarakah, murabahah, and ijarah, Islamic financial institutions can open wider access for people who were previously marginalized. (Sahban & Se, 2018).

This reconstruction can also strengthen the stability of the global financial system by offering a more inclusive and equitable model. The Islamic financial system, which is based on the principles of fairness, transparency, and risk sharing, is able to reduce the economic inequality often caused by the bank interest system that encourages consumptive and excessive debt. The sharia model prioritizes financing based on real assets and is productive, so that it not only supports sustainable economic growth but also reduces the potential for financial crises due to excessive speculation. Thus, the reconstruction of the concept of bank interest not only contributes to the goal of domestic financial inclusion but also has a positive impact on the stability of the global financial system. (Nugroho et al., 2019)

In addition, this reconstruction opens up opportunities for Islamic financial institutions to be more aggressive in designing innovative products that can meet the needs of the global community. In this digital era, for example, Islamic fintech plays an important role in supporting financial inclusion, by offering financing solutions that are more accessible to people around the world, especially in developing countries. By using technology-based platforms, Islamic financial services can be extended to areas previously isolated from formal financial access, increasing economic participation, and helping to reduce poverty and social inequality. (Salman & Nawaz, 2018)

The reconstruction of the concept of bank interest oriented towards sharia principles, if applied correctly, can answer the challenges of global financial inclusion and become a model for a fairer and more sustainable financial system. In the context of Muslim-majority countries, the move will also help increase public trust in Islamic financial institutions and strengthen the link between the Islamic economy and the global economy, while promoting broader economic justice. (Ahmad et al., 2024)

Sharia-based financial technology (fintech) innovation is also a strategic solution in expanding financial access.

The presence of sharia fintech provides significant flexibility in presenting financial products and services that are in accordance with sharia principles to the wider community. Digital technology allows Islamic financial institutions to reach customers in various regions, including remote and underserved areas, quickly and efficiently. Through online platforms, people can access various Islamic financial services, such as small business financing, investments, and savings, without having to visit a physical office. (Albaity & Rahman, 2019)

Islamic fintech utilizes the sophistication of technology to optimize transaction processes and improve operational efficiency. For example, sharia-based peer-to-peer lending (P2P) platforms can bring together funders and borrowers based on the principle of mudharabah or musyarakah, where the sharing of risks and benefits is agreed upon from the beginning. This innovation allows for more transparent and fair financing, and can reduce administrative costs that are often an obstacle in the conventional financial system. Additionally, blockchain technology can be used to track and ensure sharia compliance in transactions, providing a high level of transparency for all parties involved. (Rabbani et al., 2020)

The application of technology also allows Islamic financial institutions to develop more inclusive products. For example, the use of digital payment platforms and sharia wallets can facilitate daily transactions that are in accordance with Islamic law, such as zakat payments, waqf, or social donations. With technologies such as big data and artificial intelligence (AI), Islamic financial institutions can analyze customer needs more effectively, design products that suit their preferences, and improve customer experience. (Yudha et al., 2020)

In addition, sharia-based fintech also makes it easier to educate and literate Islamic finance. Mobile applications and websites that provide information on sharia principles, transaction simulations, and interactive learning tools can help people understand the concepts of Islamic finance better. Collaboration between Islamic financial institutions, governments, and technology providers can develop a more comprehensive and effective fintech ecosystem in supporting financial inclusion. Thus, sharia-based financial technology innovations not only expand financial access, but also contribute to more just, sustainable, and sharia economic development. (Sari, 2022)

CONCLUSION

The reconstruction of the concept of bank interest in Islamic economic law is not only important to maintain the integrity of sharia, but also to support financial inclusion globally. In the midst of increasingly complex global economic developments, a financial system based on Islamic principles offers solutions to create a fairer and more equitable system. By eliminating interest practices that tend to be exploitative, the Islamic financial system can offer financing based on transactions that are fairer, more transparent, and free from uncertainty (gharar). This provides an opportunity for those who have been marginalized by the conventional financial system to gain easier and fairer access to productive financial services. For example, people who do not have collateral or fixed assets to borrow money from conventional banks can more easily access sharia-based financing that prioritizes cooperation and risk sharing. Islamic financial institutions need to strengthen products based on Islamic values and utilize technology to expand the range of services. Technology, especially in the form of Islamic fintech, has the potential to accelerate the financial inclusion process by providing easier and more efficient access for customers in remote areas or previously unreachable by the traditional financial system. Innovative products such as peer-to-peer (P2P) lending financing, sharia-based digital payments, and crowdfunding-based sharia investment platforms can be a way for Islamic financial institutions to reach a wider market segment. To ensure the success of this initiative, adaptive and supportive regulations are needed to support technological developments as well as close collaboration between the government, the Islamic finance industry, and the community. Regulators need to create policies that not only encourage the growth of Islamic financial institutions, but also ensure that the technology used remains in accordance with sharia principles and accessible to all groups.

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