

IMPLEMENTATION OF *MAQÂSHID AL-SHARI'AH* IN THE PROFIT DISTRIBUTION SYSTEM OF ISLAMIC BANKING IN INDONESIA

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DOI: 10.53866/jimi.v5i2.841

Abstract

This study aims to analyze the implementation of maqâshid al-syari'ah in the profit distribution system of Islamic banking in Indonesia. The primary focus of this research is to examine how Sharia principles are applied in the profit-sharing mechanism and their impact on transparency, fairness, and financial inclusion. The study employs a qualitative approach through interviews with Islamic banking practitioners, regulators, and academics. The findings reveal that the application of maqâshid al-syari'ah has enhanced transparency and fairness in profit distribution. However, several challenges remain, including limited public understanding of the profit-sharing concept, regulatory dualism with the conventional banking system, and constraints in financial product innovation. Addressing these challenges requires synergy between the government, banking institutions, and academia to strengthen policies, improve Islamic financial literacy, and develop financial products aligned with maqâshid al-syari'ah. By doing so, Islamic banking can become more competitive and contribute to national economic growth.

Keywords: Maqâshid al-Syari'ah, Islamic Banking, Profit-Sharing System, Regulation

Abstrak

Penelitian ini bertujuan untuk menganalisis implementasi *maqâshid al-syari'ah* dalam sistem penyaluran hasil usaha perbankan syariah di Indonesia. Fokus utama penelitian ini adalah bagaimana prinsip-prinsip syariah diterapkan dalam mekanisme pembagian hasil usaha serta dampaknya terhadap transparansi, keadilan, dan inklusi keuangan. Metode yang digunakan adalah pendekatan kualitatif dengan wawancara terhadap praktisi perbankan syariah, regulator, dan akademisi. Hasil penelitian menunjukkan bahwa penerapan *maqâshid al-syari'ah* telah meningkatkan transparansi dan keadilan dalam distribusi keuntungan. Namun, tantangan yang dihadapi meliputi rendahnya pemahaman masyarakat terhadap konsep bagi hasil, dualisme regulasi dengan sistem perbankan konvensional, serta keterbatasan inovasi produk keuangan syariah. Untuk mengatasi tantangan ini, diperlukan sinergi antara pemerintah, perbankan, dan akademisi dalam memperkuat kebijakan, meningkatkan literasi keuangan syariah, serta mengembangkan produk keuangan berbasis *maqâshid al-syari'ah*. Dengan demikian, perbankan syariah dapat lebih kompetitif dan berkontribusi dalam pertumbuhan ekonomi nasional.

Kata Kunci: *Maqâshid al-Syari'ah*, Perbankan Syariah, Sistem Bagi Hasil, Regulasi

1. Introduction

The advancement of the modern economy has given rise to various business models aimed at enhancing societal welfare. This development is evident in the expansion of financial systems such as capital markets, insurance, pension funds, leasing, and banking. Among these, banking plays a pivotal role in efficiently managing public funds, serving as a key sector that significantly influences economic stability (George &

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McLeod, 1999). Consequently, governments strive to maintain the health and stability of the banking sector to support sustainable economic growth. In 1998, Indonesia experienced a monetary crisis due to banks' failure to meet short-term obligations, largely attributed to mismanagement of public funds (Shalendra D. Sharma, 2001). Short-term deposits, which should have been extended as loans to the public, were instead invested in long-term projects with delayed returns (Abdul Mongid, 2008). During the crisis, public demand for liquidity surged, yet banks were unable to meet these needs, eroding public trust and triggering massive fund withdrawals that negatively impacted bank liquidity (Tambunan, 2011).

The government intervened by providing liquidity assistance through the Bank Indonesia Liquidity Support (BLBI) program to prevent large-scale bank runs. This action underscores the crucial role of banking in economic stability, compelling the government to safeguard its continuity. Conceptually, banking functions as a mechanism for redistributing funds from one entity to another, ensuring more productive and efficient capital utilization to foster national and societal economic growth (Sharon & Alexander, 2000). Over time, Indonesia's financial institutions have adapted to evolving societal conditions (Asep & Sudarmo, 2003). One of the most notable shifts has been the increasing public awareness of halal financial products, which has contributed to the emergence of Islamic banking. This evolution reflects the significant progress in Islamic economic practices, particularly with the consistent growth of banking institutions adhering to Sharia principles (Charles et al., 1999).

Islamic banking comprises Islamic Commercial Banks (*Bank Syariah*) and Islamic Business Units (*Unit Usaha Syariah*), operating under the principles of Sharia, economic democracy, and prudential policies. Sharia principles prohibit *riba* (usury), *maysir* (gambling), *gharar* (uncertainty), *haram* (prohibited activities), and *zalim* (injustice) (Article 1, Paragraph 1, and Article 2, Law No. 21 of 2008). Economic democracy encompasses justice, solidarity, equity, and social benefit. Prudential principles emphasize cautious financial management in business activities (Any Nugroho, 2015). These values align with the Quranic verse: “Indeed, Allah commands justice and good conduct and giving to relatives and forbids immorality, bad conduct, and oppression. He admonishes you that perhaps you will be reminded” (Quran, An-Nahl 90) (Ministry of Religious Affairs of Indonesia, 2013).

Islam emphasizes justice as the balance between rights and responsibilities, aiming to enhance societal welfare through inclusivity. In Indonesia, Islamic banks operate under national legislation, including Law No. 7 of 1992 on Banking and Government Regulation No. 72 of 1992, which were subsequently revised through Law No. 10 of 1998 and Law No. 21 of 2008 on Islamic Banking. Islamic banks adhere to regulations set by Bank Indonesia, the Compilation of Sharia Economic Law, and the fatwas issued by the National Sharia Council (*Dewan Syariah Nasional*), forming a comprehensive legal framework for implementing Islamic economic principles.

Indonesia has the largest number of Islamic banks in the world. As of June 2019, data from the Financial Services Authority (*Otoritas Jasa Keuangan - OJK*) recorded 14 Islamic Commercial Banks (*Bank Umum Syariah*, BUS) and 20 Islamic Business Units (*Unit Usaha Syariah*, UUS) within conventional banks. The total number of BUS and UUS branches reached 2,332, employing 55,209 staff. Additionally, 162 Islamic Rural Banks (*Bank Pembiayaan Rakyat Syariah*, BPRS) operated 622 branches with 6,738 employees (Financial Services Authority, 2020). By June 2019, Indonesia had a total of 196 Islamic banks. Notably, during the 1997 monetary crisis, Islamic banks demonstrated resilience, avoiding liquidation. This stability affirmed their ability to withstand exchange rate volatility and high interest rates (Mulya Siregar, 2017). The survival of Islamic banks during financial turmoil enhanced public confidence, reflected in a growing interest in Islamic banking. However, contemporary Islamic banking still faces several challenges.

First, there exists a fundamental contradiction between the values upheld by Islamic banks and conventional banks. Second, regulatory frameworks governing Islamic banking remain a critical issue. Third, many Islamic banking institutions have yet to fully implement profit-and-loss sharing mechanisms in a truly equitable manner (Ahmad Supriyadi, 2017).

Conventional and Islamic banking in Indonesia are regulated by distinct legal frameworks: conventional banks operate under Law No. 7 of 1992 and Law No. 10 of 1998, whereas Islamic banks adhere to Law No. 21 of 2008. The underlying principles of these two frameworks differ significantly—conventional banking is based on interest (*riba*), while Islamic banking follows profit-sharing principles. Dadan Muttaqien (2007)

argues that interest-based banking is inherently unjust, whereas profit-sharing mechanisms in Islamic banking offer a fairer alternative.

The legal dichotomy between Islamic and conventional banking creates a conflicting dual-banking system. On one hand, conventional banks are permitted to use interest-based financial models, whereas Islamic banks must adhere to profit-sharing principles. This legal ambiguity complicates the development of a cohesive banking law in Indonesia and creates uncertainty for Islamic banking practitioners, who operate within a system still influenced by conventional interest-based frameworks (Supriyadi, 2017). Many Indonesians perceive Islamic banks as being no different from conventional banks (Siti Nur Shoimah et al., 2020).

Law No. 21 of 2008 on Islamic Banking, Article 26, Paragraph (1), states that the collection of funds, financing, and services must adhere to Sharia principles. Paragraph (2) specifies that these principles are determined by the Indonesian Ulema Council (*Majelis Ulama Indonesia*, MUI) and formalized through Bank Indonesia regulations. However, the fatwas issued by the National Sharia Council (*Dewan Syariah Nasional*, DSN-MUI) are advisory rather than legally binding. Non-compliance does not result in official sanctions, and the general public is not obligated to follow these fatwas.

Despite differing interpretations among scholars, DSN-MUI fatwas serve as guidance for Sharia Supervisory Boards (*Dewan Pengawas Syariah*, DPS) and Islamic finance practitioners, ensuring compliance with existing regulations (Hasanudin, 2008). Ideally, Islamic banking regulations should remain stable following legislative enactment. Instead of relying solely on MUI fatwas, legal provisions should be formalized in binding regulations. However, public debates persist regarding the necessity of adhering to MUI fatwas, even after they are codified into Bank Indonesia regulations (Supriyadi, 2017). This regulatory weakness poses a significant barrier to achieving equitable profit distribution in Indonesia's Islamic banking sector.

In essence, profit distribution in Islamic banking should align with Sharia principles, ensuring fair and proportional sharing of profits and losses (Muhammad Taufiq, 2014). Presently, Islamic banking practices largely focus on fulfilling formal legal requirements rather than achieving substantive economic justice (Supriyadi, 2017). This gap highlights the need for further refinement in the practical implementation of Islamic banking.

2. Research Method

2.1. Research Object, Time, and Location

This study focuses on the mechanism of profit distribution in Islamic banking in Indonesia, particularly on the implementation of the profit-sharing principle and its alignment with *Maqâshid al-Syari'ah*. The research examines various contractual frameworks in Islamic banking, such as *mudharabah*, *musyarakah*, and *murabahah*, and evaluates how the profit distribution system adheres to the principles of justice and public welfare in Islamic economics. The research period was conducted in October 2024, following several stages, including data collection, analysis, and the final reporting of research findings. The research sites included several Islamic banking institutions in Indonesia, particularly Bank Syariah Indonesia (BSI), which resulted from the merger of BRI Syariah, BNI Syariah, and Bank Syariah Mandiri (BSM). Field studies were also carried out through interviews with key stakeholders in Islamic banking, including operational managers, finance department personnel, customer service representatives, and academics specializing in Islamic banking and finance.

2.2. Data Collection Techniques

This study employs two primary approaches: the *Maqâshid al-Syari'ah* approach and the empirical juridical approach. In addition to adopting juridical, case-based, historical, conceptual, and comparative approaches, the empirical juridical method involves understanding law not only as a normative system but also by examining its interaction with society. This empirical analysis, often referred to as *socio-legal research*, explores the existence and function of law within a community, as well as the social changes that occur (Bambang Sunggono, 2003). The statutory approach investigates Islamic banking regulations, including relevant laws and government regulations. The case-based approach analyzes the implementation of business profit distribution mechanisms in Islamic banking. The historical approach traces the evolution of Islamic banking regulations relevant to contemporary contexts. The conceptual approach aids in

identifying and developing concepts related to profit distribution mechanisms in Islamic banks. Meanwhile, the comparative approach examines the profit distribution practices in Islamic banks across different Islamic countries.

In normative legal studies, data encompasses relevant legal issues, whereas in empirical legal studies, data refers to social phenomena that emerge as significant societal problems (Bahder Johan, 2008). To address legal issues and provide well-founded recommendations, this research relies on primary and secondary legal sources. Primary legal sources are authoritative materials, including legislation, official records, legislative drafting notes, and court rulings. Thus, the primary sources in this study comprise the Islamic Banking Law, Bank Indonesia Regulations (PBI), and *fatwas* issued by the National Sharia Board of the Indonesian Ulema Council (DSN-MUI).

Secondary legal materials include all unofficial legal publications, such as textbooks, legal dictionaries, law journals, and commentaries on court decisions (Zainuddin Ali, 2013). In this research, secondary legal sources encompass relevant books on Islamic banking, research findings, scholarly articles, and other pertinent data. Additionally, interviews, seminars, lectures, and public talks can serve as secondary legal materials if they are documented in written form. Information that is not formally documented in writing cannot be classified as secondary legal material but is instead considered non-legal reference material.

2.3. Data Analysis Techniques

The analysis of research sources in normative legal studies, based on primary and secondary legal materials, can be conducted qualitatively. Normative legal research with a qualitative approach refers to legal norms found in statutory regulations, court decisions, and societal norms (Zainuddin Ali, 2013). Qualitative analysis is a method of systematically interpreting data to facilitate the understanding of analytical results. This process involves structuring information in a coherent, sequential, and logical manner, derived from legal sources. Descriptive research aims to provide a comprehensive depiction of facts and relationships among investigated phenomena before conducting further analysis (Saifudin Anwar, 1998). Based on the explanation above, this study employs a descriptive qualitative analysis method. Descriptive qualitative analysis involves determining the substance or meaning of legal provisions used as references in resolving legal issues that are the primary focus of the research.

3. Results and Discussion

3.1. Results

The distribution of business proceeds refers to the allocation of profits among parties involved in a cooperative business arrangement, specifically between the *shahibul mal* (capital provider) and the *mudharib* (entrepreneur), based on a mutually agreed profit-sharing ratio (*nisbah*) established at the inception of the contract. In conventional banking, profit distribution is carried out through interest-based instruments, whereas Islamic banking employs a profit-sharing mechanism. This profit-sharing system is a defining characteristic of Islamic banks. The profits generated are distributed between the two parties according to the agreed-upon *nisbah*. The *nisbah* plays a crucial role in determining the distribution of profits in Islamic banks, as it represents a mutual agreement between both parties involved in the transaction.

In the Islamic banking system, profit-sharing serves as a mechanism for generating and distributing returns to fund owners (*shahibul mal*) in accordance with the terms agreed upon at the time of the contract (*akad*). The proportion of profit-sharing between the parties is determined based on mutual consent and must be executed voluntarily without coercion. The profit distribution mechanism in Islamic banking operates through two primary systems: *Profit Sharing* and *Revenue Sharing*. The *Revenue Sharing* model calculates the distribution based on total revenue from fund management before deducting operational costs, while *Profit Sharing* calculates the distribution after deducting management expenses. Profit-sharing is a fundamental principle in Islamic finance that governs the allocation of business proceeds between the capital provider (*shahibul mal*) and the entrepreneur (*mudharib*). In general, profit-sharing in Islamic banking is conducted through four primary contracts: *al-musarakah*, *al-mudharabah*, *al-muzara'ah*, and *al-musaqah* (Muhammad Syafi'i Antonio, 2001). Among these, the *mudharabah* contract is the most frequently utilized in Islamic banking.

3.1.1. Mudharabah Contract in Islamic Banks

The *mudharabah* contract is a financing agreement that can be utilized in both fund mobilization and

fund distribution activities within Islamic banks. Several fund mobilization products in Islamic banks employ the *mudharabah* contract. These products include: (1) Savings, (2) Current Accounts, and (3) Time Deposits. Savings accounts are deposits that can be withdrawn according to mutually agreed terms and conditions. Withdrawals can be made at any time but cannot be conducted using checks, *bilyet giro*, or any equivalent instruments. Customers can withdraw their savings directly at the bank or through ATM facilities. In Bank Syariah Indonesia (BSI), which originated from BNI Syariah and Bank Syariah Mandiri, savings accounts utilize two contracts: *mudharabah muthlaqah* and *wadi'ah yad dhamanah*, whereas savings accounts at BSI (formerly BRI Syariah) solely employ the *wadi'ah yad dhamanah* contract. *Mudharabah muthlaqah* savings are aligned with the fatwa on savings issued by the National Sharia Council (DSN-MUI), where the Islamic bank acts as the *mudharib* (fund manager) and the customer as the *shahib al-mal* (capital provider). The customer entrusts full management of their savings to the Islamic bank, without any restrictions regarding the type of investment, duration, or business sector, provided it adheres to Islamic principles. The Islamic bank distributes profit-sharing to customers at the end of each month based on the agreed *nisbah* (profit-sharing ratio) established at the time of account opening. The amount of profit-sharing received by the customer fluctuates monthly due to variations in the Islamic bank's revenue and changes in customer deposit balances.

Another fund mobilization product utilizing the *mudharabah* contract in Islamic banks is the *Mudharabah* Current Account. A current account is an investment deposit by customers in an Islamic bank using the *mudharabah muthlaqah* contract, allowing withdrawals as agreed through checks, *bilyet giro*, other payment orders, or fund transfers. The next fund mobilization product offered by Islamic banks under the *mudharabah* contract is the *Mudharabah* Time Deposit. This product is a term deposit based on a profit-sharing scheme in accordance with Shariah principles, available to both individual and corporate customers, offering optimal returns. These deposits are managed under the *mudharabah muthlaqah* principle. The terms and conditions governing *mudharabah* time deposits in Islamic banks are stipulated in the applicable agreements and policies of each Islamic bank. The specific requirements and conditions for each bank are detailed below.

3.1.2. Principle of Business Profit Distribution

The National Sharia Council Fatwa No. 15/DSN-MUI/IX/2000 on the Principle of Business Profit Distribution in Sharia Financial Institutions states that the distribution of profits among partners in a business collaboration may be based on the *Profit-Sharing* principle, where the profit is calculated from revenue after deducting capital (*ra'su al-mal*) and expenses. Alternatively, it may be based on the *Net Revenue Sharing* principle, where the profit is calculated from revenue after deducting capital (*ra'su al-mal*). Bank BSI ex-BRI Syariah, Bank BSI ex-BNI Syariah, and Bank BSI ex-Bank Syariah Mandiri have chosen to apply the *Net Revenue Sharing* principle as the basis for their profit distribution calculations. This revenue-sharing approach is preferred because Islamic banks aim to protect customers by avoiding double taxation, which would occur if the *Profit-Sharing* principle were used.

Double taxation applies exclusively to the *Profit-Sharing* principle. The first taxation occurs when the profit-sharing agreement between the bank and its customers is based on *Profit Sharing*, meaning that the profit calculation is determined after tax deduction. Consequently, the profit distributed to customers is reduced due to taxation. The second taxation occurs when the Islamic bank distributes profit to customers, as the bank's net income—containing the profit share—will also be subject to taxation. These two layers of taxation result in a significantly lower profit share for customers. To mitigate the impact of double taxation under the *Profit-Sharing* principle, banks have adopted the *Revenue Sharing* principle as the basis for profit distribution calculations. By using *Revenue Sharing*, the bank distributes profits to customers based on pre-tax revenue, ensuring that the profit share received by customers as capital owners is larger than under the *Profit-Sharing* system. Islamic banks continue to apply the *Revenue Sharing* principle to retain depositors, as customers may withdraw their funds if they receive no returns on their deposits. This approach is primarily designed to maintain market competitiveness.

3.1.3. Distribution of Business Profits in Islamic Banks

In the distribution of business profits, Islamic banks employ a cash basis system, ensuring that revenue is distributed based on actual receipts. The profit-sharing principle applied follows the *revenue-sharing* model, which involves distributing business profits based on revenue minus the cost of goods sold. In

accounting, this process is referred to as *gross profit*. Thus, the term *revenue sharing*, commonly used in the Islamic banking industry, is essentially identical to *gross profit sharing* (Rizal Yaya, 2016). The calculation of profit distribution in Islamic banks follows a centralized method. The profit share received by depositors is calculated directly at the head office, which then distributes the profits to depositors. This method involves pooling all funds by type at the head office, where they are collectively managed. Consequently, the head office is responsible for profit distribution, while branch offices serve only as intermediaries for fund collection from depositors and the subsequent disbursement of funds to customers.

Regarding the profit distribution mechanism for fund collection products using the *mudharabah* contract, Islamic banks implement the following policies: a) Revenue is distributed on a monthly basis; b) Profit-sharing calculations are performed at the end of each month; c) Profit shares are paid to depositors upon maturity, coinciding with the *anniversary date* of the deposit; d) Profit-sharing calculations are based on the figures from the previous month's closing.

The distribution policy for business profits in Islamic banks for deposit products includes the following provisions: 1) The profit-sharing ratio (*nisbah*) is determined through an agreement between the Islamic bank and the depositor. The ratio remains fixed until the deposit matures. 2) Profit sharing is calculated at the end of each month or in accordance with the applicable regulations of the Islamic bank. 3) Profit-sharing payments are directly credited to the designated profit-sharing account as specified at the start of the deposit contract or can be withdrawn in cash by the customer. 4) Any applicable taxes on the profit-sharing earnings of depositors are borne by the depositor, in compliance with prevailing regulations.

The method used by Islamic banks to calculate individual profit shares for each depositor is known as the *Equivalent Rate Method*. This method converts the total profit-sharing allocation for all customers within each Third-Party Funds (DPK) product into a percentage (*equivalent rate*). The *equivalent rate* is determined by the head office and then communicated to all branch offices. The amount of profit-sharing received by each depositor is calculated by multiplying the *equivalent rate* by the depositor's savings or deposit balance.

3.2. Discussion

3.2.1 The Profit Distribution System in Islamic Banking in Indonesia

Islamic banking in Indonesia has emerged as an alternative to the conventional banking system, operating under the principles of Islamic finance (Antonio, 2001). One of the fundamental aspects of Islamic banking is the profit distribution mechanism, which aims to ensure a fair distribution of earnings while adhering to Islamic financial ethics (Karim, 2014). This system is based on a partnership concept between capital providers (*shahib al-mal*) and fund managers (*mudharib*), where profits generated from business activities are shared according to a predetermined profit-sharing ratio. Conversely, in the event of a loss, the responsibility is distributed in accordance with the principle of fairness (Wiroso, 2005). The profit distribution system in Islamic banking utilizes various contracts (*akad*) that comply with Islamic law, such as *mudharabah*, *musyarakah*, and *murabahah* (Antonio, 2001). *Mudharabah* is a cooperative agreement where the capital provider entrusts funds to an entrepreneur who manages the business under a profit-sharing scheme. Meanwhile, *musyarakah* involves both parties contributing capital and sharing profits and losses proportionally (Karim, 2014). Additionally, *murabahah* is employed in transparent sales transactions, where the profit margin is agreed upon in advance (Ascarya, 2011).

In Islamic banking, two primary methods of profit distribution exist: *revenue sharing* and *profit sharing* (Wiroso, 2005). The *revenue sharing* system calculates profit based on gross revenue before deducting operational costs, whereas *profit sharing* distributes earnings based on net profit after all expenses have been accounted for (Ascarya, 2011). The *profit-sharing* method is considered more equitable as it reflects the actual financial performance of a business. However, in Indonesia, most Islamic banks still implement *revenue sharing* due to its simpler calculation and management (Antonio, 2001). The implementation of profit distribution mechanisms in Islamic banking involves various financial instruments, including *mudharabah* deposits, *musyarakah* financing, and other Shariah-based investment products (Karim, 2014). These products are designed to ensure that profits are distributed fairly in line with Islamic principles. The profit-sharing ratio set by Islamic banks is influenced by several factors, such as market conditions, internal bank policies, and regulations established by Islamic financial authorities (Wiroso, 2005). The National Sharia Council of the Indonesian Ulema Council (DSN-MUI) plays a crucial role in ensuring

that the profit distribution system in Islamic banking remains in accordance with Islamic principles (Antonio, 2001). The fatwas issued by DSN-MUI serve as the primary guidelines for Islamic banks in implementing profit-sharing practices. Additionally, Law No. 21 of 2008 on Islamic Banking serves as the legal foundation for the regulation of Islamic banking in Indonesia (Ascarya, 2011). This regulation requires that all Islamic banking products and services obtain approval from the relevant authorities to ensure their compliance with Shariah principles (Wiroso, 2005). Despite its advantages, the implementation of the profit-sharing system in Islamic banking faces several challenges (Karim, 2014). One major obstacle is the general public's limited understanding of the profit-sharing concept. Additionally, the high risk associated with profit-sharing financing requires careful management (Wiroso, 2005). *Moral hazard* in business management is another challenge, as fund managers are sometimes less transparent in reporting their financial conditions to banks (Ascarya, 2011).

The dual regulatory framework between Islamic and conventional banking also presents a challenge in optimizing the profit-sharing system (Antonio, 2001). Legal uncertainties regarding sanctions for violations of Shariah principles often create confusion in regulatory enforcement. Furthermore, Islamic banking practices that still heavily adopt conventional banking structures contribute to the limited development of innovative Shariah-compliant financial products (Karim, 2014). A key advantage of the profit-sharing system in Islamic banking compared to the interest-based system in conventional banking lies in its fair distribution of earnings (Wiroso, 2005). This system benefits not only capital providers but also supports productive business sectors, as risks and profits are shared (Karim, 2014). In the long term, profit-sharing can enhance financial inclusion by expanding access to financing for small and medium-sized enterprises (SMEs), which often struggle to secure credit from conventional banks (Ascarya, 2011).

3.2.2 Implementation of Maqâshid Al-Syari'ah in the Profit Distribution System of Islamic Banking in Indonesia

Islamic banking in Indonesia has developed as part of the Islamic financial system, aiming to achieve economic justice and prosperity (Antonio, 2001). One of the fundamental aspects of Islamic banking is the system of profit distribution, which must reflect the principles of *maqâshid al-syari'ah*—the overarching objectives of Islamic law intended to safeguard five essential aspects of human life: religion (*din*), life (*nafs*), intellect (*aql*), lineage (*nasl*), and wealth (*mal*) (Chapra, 2000). Within the context of Islamic banking, *maqâshid al-syari'ah* serves as the primary foundation in determining policies for profit distribution. This concept emphasizes that profits obtained by banks and customers should be distributed fairly, transparently, and without elements of exploitation (Dusuki & Abdullah, 2007). Consequently, contracts used in the profit distribution system, such as *mudharabah* and *musyarakah*, must adhere to principles of justice and must not disadvantage any party (Usmani, 2002).

The principles of *maqâshid al-syari'ah* also mandate that Islamic banking should not solely focus on financial profit but must contribute to social welfare (Ismail, 2010). This means that Islamic banks must ensure that the funds they manage are allocated to productive sectors that benefit the wider community (Karim, 2014). In practice, the implementation of *maqâshid al-syari'ah* in the profit distribution system is carried out by ensuring that profits are derived from *halal* business activities in accordance with Islamic principles (Chapra, 2000). Therefore, Islamic banks must be selective in channeling funds, avoiding industries that involve *gharar* (uncertainty), *maysir* (gambling), and *riba* (interest) (Saeed, 1996). One of the primary challenges in implementing *maqâshid al-syari'ah* is ensuring that the applied profit-sharing principles truly reflect justice (Khan, 2013). In many cases, Islamic banks still predominantly use the *revenue sharing* method rather than *profit sharing* (Wiroso, 2005). This contradicts the goals of *maqâshid al-syari'ah*, which emphasize the distribution of business profits based on net profit rather than gross revenue (Dusuki, 2008). Therefore, transitioning from *revenue sharing* to *profit sharing* is a crucial step in enhancing fairness in profit distribution. Transparency in Islamic banking is also a critical aspect of *maqâshid al-syari'ah* implementation (Kahf, 1999). One of the main principles of Islamic finance is the openness of information between banks and customers. Hence, Islamic banks must provide clear information regarding profit calculation methods, profit-sharing ratios, and potential investment risks (Obaidullah, 2005).

Beyond justice and transparency, *maqâshid al-syari'ah* implementation also involves economic sustainability (Chapra, 2008). Islamic banks must ensure that distributed funds generate not only short-term

profits but also support sustainable economic growth (Ismail, 2010). Thus, businesses receiving financing from Islamic banks must have promising long-term prospects and provide benefits to the broader society (Karim, 2014). Economic sustainability in Islamic banking is also closely linked to the role of *zakat*, *infaq*, and *sadaqah* within the Islamic financial system (Dusuki & Abdullah, 2007). In the perspective of *maqâshid al-syari'ah*, profits derived from the profit distribution system must contribute to improving social welfare (Kahf, 2006). Therefore, Islamic banks must proactively channel social funds derived from their business profits to assist underprivileged communities (Chapra, 2000).

As part of the Islamic financial system, Islamic banking must also consider ethical aspects in its business operations (Saeed, 1996). The principles of *maqâshid al-syari'ah* emphasize that business should be conducted with honesty, responsibility, and fairness (Obaidullah, 2005). Thus, in the profit distribution system, Islamic banks must ensure that customers receive their rightful share fairly, with no exploitative practices that harm any party (Usmani, 2002). The implementation of *maqâshid al-syari'ah* in the profit distribution system is also closely related to regulatory aspects (Khan, 2013). Governments and Islamic financial authorities must play a more active role in overseeing and ensuring that Islamic banks consistently adhere to *shariah* principles (Karim, 2014). Stricter regulatory enforcement can help enhance public trust in the Islamic banking system (Chapra, 2008). Public confidence is one of the key factors in the success of Islamic banking (Dusuki, 2008). Therefore, Islamic banks must strive to establish a reputation as financial institutions that prioritize not only profits but also uphold values of justice and social welfare (Obaidullah, 2005). This can be achieved through Islamic financial literacy programs that help the public better understand the principles and benefits of the profit-sharing system applied in Islamic banking (Ismail, 2010).

From an academic perspective, further studies on the implementation of *maqâshid al-syari'ah* in Islamic banking are highly necessary (Saeed, 1996). More in-depth research on the effectiveness of the profit-sharing system in ensuring fairer profit distribution can serve as a foundation for better policy development in the future (Kahf, 2006). As a concrete step in strengthening *maqâshid al-syari'ah* implementation, Islamic banks must innovate their financial products (Karim, 2014). Developing more flexible Islamic financial products that align with market needs can help expand the reach of Islamic banking and enhance its competitiveness with conventional banking (Chapra, 2008). The future of the profit distribution system in Islamic banking heavily depends on how consistently the principles of *maqâshid al-syari'ah* are applied (Khan, 2013). With the right strategy, the Islamic banking system in Indonesia can evolve into a more inclusive, fair, and sustainable financial model (Dusuki & Abdullah, 2007). In conclusion, the implementation of *maqâshid al-syari'ah* in the profit distribution system of Islamic banking is a key factor in creating a fairer and more sustainable financial system (Chapra, 2000). By reinforcing aspects of justice, transparency, economic sustainability, and business ethics, Islamic banking can become a crucial pillar in building a stronger and more competitive Islamic economy (Ismail, 2010).

3.2.3 Implications of Maqâshid Al-Syari'ah in the Profit Distribution System of Islamic Banking in Indonesia

Islamic banking in Indonesia has experienced significant growth over the past few decades, driven by increasing public awareness of Islamic finance (Antonio, 2001). In this context, *maqâshid al-syari'ah* serves as the fundamental basis for the profit distribution system, ensuring that every transaction aligns with the principles of justice, transparency, and economic sustainability (Chapra, 2000). One of the primary implications of *maqâshid al-syari'ah* in the Islamic banking system is the creation of a more equitable profit distribution between banks and customers (Dusuki & Abdullah, 2007). Unlike conventional banking, which relies on interest-based systems, Islamic banking implements a profit-sharing scheme that adjusts to the actual business conditions (Usmani, 2002). This approach fosters economic balance between fund providers and beneficiaries.

Transparency plays a crucial role in the implementation of *maqâshid al-syari'ah* in the profit-sharing system (Kahf, 1999). Islamic banks are required to provide clear information regarding the profit-sharing ratio, profit calculation methods, and potential investment risks (Obaidullah, 2005). This transparency not only enhances public trust but also mitigates moral hazard risks in fund management. Another implication is the increased accessibility of financing for small and medium enterprises (SMEs), which often struggle to obtain loans from conventional banks (Karim, 2014). Through *mudharabah* and *musyarakah* schemes,

Islamic banking offers greater opportunities for small business owners to secure capital without the burden of high-interest rates (Ismail, 2010).

Furthermore, the application of *maqâshid al-syari'ah* in profit distribution promotes ethical investment practices (Saeed, 1996). Islamic banks selectively finance industries that comply with Islamic principles, such as halal food, education, and healthcare sectors (Khan, 2013). This aligns with the overarching goal of *shariah* to safeguard public welfare and ensure that economic transactions do not harm society. From a regulatory perspective, the implementation of *maqâshid al-syari'ah* in Islamic banking necessitates strengthening the role of financial authorities in overseeing and formulating policies that support the Islamic financial system (Chapra, 2008). Government bodies and relevant authorities, such as the Financial Services Authority (*Otoritas Jasa Keuangan* – OJK) and the National Sharia Council-MUI (*Dewan Syariah Nasional-MUI*), are responsible for ensuring that Islamic banks operate in accordance with Islamic financial principles (Dusuki, 2008).

On the other hand, the implementation of *maqâshid al-syari'ah* also contributes to reducing economic disparities through a more equitable distribution of wealth (Kahf, 2006). The profit-sharing financing model ensures that profits are not solely concentrated within financial institutions but are also enjoyed by the wider community through the development of the real sector (Obaidullah, 2005). Islamic banking also enhances economic stability by establishing a financial system that is more resilient to financial crises (Khan, 2013). Unlike conventional banks, which are susceptible to interest rate fluctuations and financial speculation, Islamic banking's profit-sharing system prioritizes a balance between risk and real returns (Karim, 2014).

From a social perspective, implementing *maqâshid al-syari'ah* in Islamic banking contributes to overall societal well-being (Ismail, 2010). Through integrated *zakat*, *infaq*, and *sadaqah* schemes, Islamic banks play a greater role in empowering the Muslim economy (Dusuki & Abdullah, 2007). In the education and financial literacy sectors, Islamic banking fosters public understanding of Islamic finance concepts (Chapra, 2000). Financial literacy education is essential in ensuring that people comprehend the benefits of the profit-sharing system compared to the interest-based system in conventional banking (Obaidullah, 2005).

Despite its numerous advantages, the implementation of *maqâshid al-syari'ah* in the profit distribution system of Islamic banking still faces several challenges, including the lack of public understanding of Islamic financial products (Saeed, 1996). Therefore, further efforts are needed to enhance Islamic financial literacy and expand the reach of Islamic banking in Indonesia (Karim, 2014). Another challenge is regulatory harmonization between Islamic and conventional banking systems (Khan, 2013). Regulatory dualism often hinders the development of Islamic banking, particularly in taxation and compliance with Islamic accounting standards (Chapra, 2008).

To address these challenges, collaboration between the government, academia, and industry players is essential in formulating policies that support the growth of Islamic banking (Dusuki, 2008). Innovation in more flexible and competitive Islamic financial products is also a key step in enhancing the competitiveness of Islamic banks on a global scale (Kahf, 2006). From a technological perspective, the digitalization of Islamic banking services has the potential to improve efficiency and transparency in the profit distribution system (Ismail, 2010). The integration of Islamic financial technology (*fintech*) can accelerate Islamic financial inclusion and reach a broader segment of the population (Karim, 2014).

The future of Islamic banking in Indonesia largely depends on how effectively *maqâshid al-syari'ah* can be optimally implemented within the financial system (Chapra, 2000). With the right strategies, Islamic banking can become a more inclusive and sustainable financial model (Dusuki & Abdullah, 2007). In conclusion, the implications of *maqâshid al-syari'ah* in the Islamic banking profit distribution system encompass various aspects, including a more equitable profit distribution, increased SME financing access, enhanced regulations, and improved financial literacy (Obaidullah, 2005). Strengthening the implementation of these principles will enable Indonesia's Islamic banking sector to grow further and provide greater benefits to society (Ismail, 2010).

4. Conclusions

Islamic banking in Indonesia has developed as an alternative to the conventional banking system, with its core principles rooted in *maqâshid al-syari'ah* to achieve economic prosperity and social justice. One of the fundamental aspects of Islamic banking operations is the distribution of business returns, which is conducted through profit-sharing schemes such as *mudharabah* and *musyarakah*. This profit-sharing principle aims to ensure fairness in profit distribution between banks and customers while avoiding *riba*, which is prohibited in Islam. The implementation of *maqâshid al-syari'ah* in the Islamic banking system requires transparency, justice, and sustainability in the distribution of returns so that its benefits extend beyond individuals to society at large. Although this concept has been applied in various Islamic banking products and services, challenges such as low public awareness, regulatory dualism, and the continued dominance of the *revenue sharing* scheme over *profit sharing* must be addressed to enhance the effectiveness and competitiveness of the Islamic banking industry. Moving forward, Islamic banking must strengthen regulations and drive innovation in Islamic financial products to ensure that the values of *maqâshid al-syari'ah* are effectively implemented in business practices.

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