



## **Philosophy and Basic Principles of Sharia Banking in Indonesia**

**Hamdan Firmansyah<sup>1</sup>, Fidy Arie Pratama<sup>2</sup>**

Institut KH. Ahmad Sanusi Sukabumi<sup>1</sup>  
Universitas Islam Bunga Bangsa Cirebon<sup>2</sup>

Email: [hamdan.firmansyah@inkhas.ac.id](mailto:hamdan.firmansyah@inkhas.ac.id)  
[fidyaarie@gmail.com](mailto:fidyaarie@gmail.com)

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### **ABSTRACT**

The philosophy of Islamic banking is in line with the philosophy of Islamic economics, which includes several elements, including monotheism, balance (equilibrium), freedom, productivity, justice, having ethical and business morality, and responsibility. The concrete manifestation of the principles of Islamic banking is in the form of the principle of profit sharing (mudharabah), financing based on capital participation (musyarakah), the principle of buying and selling goods to obtain profits (murabahah), or financing of capital goods based on the principle of pure rental without options (ijarah) or with the option of transferring ownership of goods rented from the bank to another party (ijarah wa iqtisna).

**Keywords:** *Philosophy, Basic Principles, Sharia Banking, Indonesia*

### **INTRODUCTION**

Islam is a balanced and integrated way of life, designed to bring human happiness (falah) by establishing harmony, fulfilling human moral and material needs, and realizing socio-economic justice and brotherhood within society. This call for prosperity oriented toward justice and balance is repeated five times daily from the minarets. Muslims have begun to respond to this call, and there is a resurgence within the Islamic world, as well as in the intellectual realm. In accordance with its goal of prosperity in this world and the hereafter, Muslim intellectuals began designing a financial system, specifically banking, that conformed to the text. This led to the establishment of an Islamic/Sharia banking system that is, in principle, interest-free. Sharia banking, or Islamic banking (al

Mashrafiyah al Islamiyah), is a banking system implemented based on Islamic law (Sharia). This system is based on the Qur'an, specifically prohibiting usury (riba) and prohibiting prohibited activities.

While the principles mentioned above may have been applied throughout the history of the Islamic economy, it was not until the 20th century that Islamic banks began to apply them to private/semi-private commercial institutions within Muslim communities worldwide. The concept of Islamic banking itself is relatively new to Indonesian society compared to conventional banking. Although the basic concept of Islamic banking has been around for a long time, in reality, Islamic practices only began in 1992. Given that Islamic banking practices are still in their infancy, it's understandable that the Islamic banking system is still poorly understood by the public, leading some to view, and even some to use, Islamic banking services with both hope and trepidation.

However, the birth of Islamic banking in Indonesia was driven by the desires of the Indonesian people (especially Muslims) who view interest as usury and therefore prohibited by religion. From a legal perspective, the foundation for the development of Islamic banking in Indonesia is Law No. 7 of 1992. In this law, Sharia principles are still vague, expressed as profit-sharing. The principles of Islamic banking are explicitly stated in Law No. 10 of 1998, which was later amended by Law No. 23 of 1999 concerning Bank Indonesia and Law No. 3 of 2004. Thus, the development of financial institutions using sharia principles began in 1992, which began with the establishment of Bank Muamalat Indonesia (BMI) as the first sharia-based bank in Indonesia.

When asked what Islamic banking is, most people simply state that it's interest-free, and some even say it's the same as conventional banking. While the first statement is true, Islamic banking is actually more than that. Furthermore, Islamic banking products aren't exotic, and they aren't intended for or acceptable only to Muslims. Rather, they are intended for all groups, as stated in the Qur'an, which states that Islam in all its scope is a blessing for all creation.

The establishment of a profit-sharing banking system is based on two main reasons: first, the view that interest in conventional banking is forbidden because it falls into the category of usury, which is prohibited by religion, not only in Islam but also in other monotheistic religions. Second, from an economic perspective, transferring business risk to one party is considered a violation of the norms of justice. In the long term, the conventional banking system will lead to the accumulation of wealth among a handful of wealthy individuals or those with significant capital.

## METHOD

This study uses a qualitative-descriptive approach based on literature study (library research). This approach was chosen because the main focus of the study is to analyze the Philosophy and Basic Principles of Islamic Banking in Indonesia. The data collection process was carried out systematically through the identification of primary sources, such as the Quran and Hadith, identification of secondary sources, such as scientific journal articles, books, and relevant research results on Islamic banking, and selection of literature based on relevance criteria. The data analysis technique used was content analysis, then the researcher conducted an in-depth interpretation of the understanding of the Philosophy and Basic Principles of Islamic Banking in Indonesia.

## RESULTS AND DISCUSSION

Sharia banking, a relatively new form of banking compared to conventional banking, operates in accordance with Islamic sharia principles. Currently, many terms are used to describe Sharia banking entities, including interest-free banks, riba-free banks, and Islamic banks. In Indonesia, the official legal term for Islamic banks is "Sharia banks," or more specifically, "Sharia-based banks." Meanwhile, according to Law No. 10 of 1998 concerning amendments to Law No. 7 of 1992, Islamic banking/Sharia banks are commercial banks that conduct business activities based on Sharia principles, providing payment transaction services. Furthermore, Article 1, paragraph 13 of Law No. 10 of 1998 states:

"Sharia principles are agreements based on Islamic law between banks and other parties for the deposit of funds and/or financing of business activities, or other activities, which are declared to be in accordance with Sharia..." Meanwhile, Article 1, number 1 of Law No. 21 of 2008 defines Islamic banking as everything related to Islamic banks and Sharia business units, including institutions, business activities, and the methods and processes used to carry out these activities. In Law No. Law No. 10 of 1998 concerning amendments to Law No. 7 of 1992 concerning Banking contains several changes that provide greater opportunities for the development of Islamic banking. This law explains that the Islamic banking system is developed with the following objectives:

1. Providing banking services for those who do not accept the concept of interest. This allows for broader community fund mobilization, especially for segments previously untouched by conventional banking, which uses an interest system.

2. Opening financing opportunities for business development based on the principle of partnership. This principle applies the concept of a harmonious investor relationship, while in conventional banking the concept is a debtor-creditor relationship.

3. Meeting the need for banking products and services that have several comparative advantages, such as the elimination of perpetual interest, limiting unproductive speculative ventures, and financing aimed at businesses that prioritize moral elements.

Furthermore, according to Law No. Article 3 of Law No. 21 of 2008 concerning Islamic banking states that "Islamic banking aims to support national development in order to increase justice, togetherness, and equal distribution of people's welfare," which in its explanation of Article 3 states that in achieving the goal of supporting the implementation of national development, Islamic banking adheres to sharia principles in a comprehensive and consistent manner.

### **Analysis of the Philosophy of Islamic Banking**

Referring to the definition of Islamic economics above, we can formulate three philosophies of Islamic economic law. First, everything in the universe – the heavens, the earth, and other natural resources, even the wealth possessed by humans – belongs to God, and it is God who created them. All that He creates is subject to His will and decrees. Humans, as caliphs, have the right to manage and utilize this nature for the survival of humanity and its environment. (Surah Thaha, verse 6 and Surah Al-Maidah, verse 120). Second, God created humans as caliphs with all the perfect equipment, enabling them to carry out their duties and obligations on earth. (Surah Luqman, verse 20, Surah An-Nahl, verses 10-16, Surah Fatir, verses 27-28). Third, belief in the Day of Judgment and the Day of Judgement. Belief in the Day of Judgment is an important principle because it will control human economic behavior and ensure trustworthiness in all that is entrusted to them.

Islamic banking is part of Islamic economics, which is part of muamalat, a manifestation of the interaction between one human being and another. Therefore, Islamic banking is inseparable from the rules of the Qur'an and Sunnah, the sources of Islamic law. Islamic banking is also inseparable from the Islamic economic paradigm, such as:

### 1. Value of Monotheism

In the Qur'an it is said that one of the purposes of creating humans was to serve themselves to Allah SWT. This servitude is the realization of a servant's monotheism towards his Creator. Consequently, all economic activities can be worth worship if you intend to get closer to Him.

### 2. Allah SWT is the true owner of property

Sharia economic principles view that Allah SWT is the ultimate owner of property. Humans only receive wealth from Allah, so the way they obtain and spend it must be in accordance with the rules of Allah as the ultimate owner.

### 3. Global and long-term vision

Sharia economics teaches humans to look far into the future and think about nature as a whole. Islamic teachings encourage its adherents to pursue the afterlife which is a long-term life without forgetting the world.

### 4. Justice

Justice is very important in everything, including economic actions. Allah SWT commands us to always be fair in determining everything.

Islamic banking and other Islamic financial institutions adhere to the philosophy of seeking Allah's pleasure to attain goodness and prosperity in this world and the hereafter. Therefore, any activity by Islamic financial institutions that is suspected of deviating from Sharia must be avoided. Islamic banking must avoid usury by avoiding systems that determine the success of a business in advance and by avoiding percentage systems for charging fees on debt and providing returns on deposits that contain elements of automatically multiplying the debt simply by the passage of time (*riba nasiah*). Islamic banks must establish profit-sharing and trade systems based on the Qur'an and Sunnah. Therefore, every Islamic banking transaction must be based on profit-sharing and trade (the exchange of money for goods).

In line with the points discussed above, we can draw a philosophical conclusion about Islamic banking, which encompasses several elements, including monotheism, equilibrium, freedom, productivity, justice, ethical business conduct, and responsibility. One of these elements, namely balance, means that Islam rejects the closed cycle of wealth and income. Instead, economic activity, in the form of assets or capital, must be distributed evenly throughout society to maintain equilibrium and prevent disequilibrium, as affirmed in the Qur'an:

"Believe in Allah and His Messenger and spend from your wealth over which Allah has made you rulers. Those who believe among you and spend from their wealth will have a great reward."

The meaning of the above verse is "so that wealth does not circulate only among the rich."

Productive means assets that are used for benefit and welfare. Therefore, assets cannot be idle and are allowed to make a profit. The principle of justice is the goal to be realized by law. Implementation of this principle in an agreement requires the parties to do the right thing in expressing their wishes and circumstances, fulfilling all their obligations. The general legal basis for this principle is Al Maidah verse 8 "do justice, because justice is closer to piety", as well as in Surah Al Hadid verse 25 it is said: "Indeed, we have sent our Messengers with concrete evidence and we have sent down with them the Book and the balance (of justice) so that humans can carry out justice". Justice is different from equality. Justice is a balance between the various potentials of various individuals, both moral and material, between individuals and society, and between society itself which is based on Islamic sharia.

Fairness also means prohibiting usury and requiring profit and loss sharing. In this context, fairness also serves as a paradigm for the relationship between banks and customers. This relationship is a contractual agreement between the shahibul maal investor and the mudharib investor, who collaborate to conduct a productive business, and the distribution must be fair (mutual investment relationship). This investment partnership will essentially create a harmonious business relationship based on the principle of business justice and the proportional enjoyment of agreed-upon profits. However, if we observe the relationship between customers and conventional banks, it is a creditor-debtor relationship, applying an interest system. Although banks desire cooperation and guidance, this is difficult to implement and sustain because the bank's ultimate goal is profit, ignoring the actual condition of the customer, whether their business is experiencing profit or loss. This can lead to exploitation by the bank against the customer, or vice versa.

### **Analysis of the Basic Principles of Islamic Banking**

Sharia principles are principles that are held and implemented in every matter by a person, body or other based on the Qur'an and Sunnah. The word sharia itself is a derivation of Islamic law which is contained in the Koran and Sunnah. If Islamic law is violated, it will receive sanctions from Allah as the

owner of sharia. This is what Sharia Banking uses as guidelines and principles to enforce amar ma'ruf nay munkar in its economic activities. The sharia principles referred to are as stated in article 2 of the explanation of Law No. 21 of 2008, namely: business activities that are based on sharia principles include, among other things, business activities that do not contain elements of:

1. Usury, which is the illegal addition of income (batil), including in transactions for the exchange of similar goods of different quality, quantity, and delivery time (fadhl), or in lending and borrowing transactions that require the Facility Recipient to return funds received in excess of the principal due to the passage of time (nasi'ah);

2. Maisir, which is a transaction that is dependent on an uncertain situation and is based on chance;

3. Gharar, which is a transaction where the object is unclear, not owned, its whereabouts are unknown, or cannot be delivered at the time of the transaction unless otherwise stipulated in Sharia;

4. Haram, which is a transaction whose object is prohibited by Sharia; or

5. Zalim, which is a transaction that causes injustice to the other party.

The main principles adopted by Islamic banks, as stipulated in PSAK No. 59 concerning Islamic accounting, can be added, namely:

1. The main principles of partnership, justice, transparency, and universality

2. Prohibition of usury

3. No concept of time value of money

4. The concept of money as a medium of exchange, not a commodity

5. Non-speculative activities

6. No two prices for one item

7. No two transactions in one contract

8. Profit-sharing concept

9. No distinction between the monetary sector and the real sector

10. Allowance for remuneration for other banking services that do not conflict with Islamic principles.

Furthermore, Islamic banks are banks that adhere to economic democracy and the principle of prudence. Economic democracy refers to Islamic economic

activities that embody the values of justice, togetherness, equality, and benefit. The principle of prudence is a guideline for bank management that must be adhered to in order to create a healthy, strong, and efficient banking system.

## CONCLUSION

The philosophy of Islamic banking aligns with the philosophy of Islamic economics, which encompasses several elements, including monotheism, equilibrium, freedom, productivity, justice, ethical business practices, and responsibility. The principles of Islamic banking, as outlined in Article 2 of Law No. 21 of 2008, include: business activities based on Islamic principles include those that do not contain elements of Riba (usury), Maisir (gambling), Gharar (gharar), Haram (prohibited), and Zalim (unjust). These activities are supported by the main principles of partnership, justice, transparency, and universality. The prohibition of usury (riba), the absence of the concept of the time value of money, the concept of money as a medium of exchange, not a commodity, non-speculative activities, the prohibition of using two prices for one item, the prohibition of conducting two transactions in one contract, the concept of profit sharing, the non-discrimination between the monetary and real sectors, and the possibility of receiving compensation for other banking services that do not conflict with Islamic principles.

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