Muttaqien, Vol. 6. No. 2, July 2025, 164 – 173

# Revisiting Riba: Its Impact on Islamic Banking Innovation in Indonesia

**Adi Susandi,**[a*] **Nadya Zahra Virliana**[b]
[1]***Universitas Islam Negeri Sunan Gunung Djati Bandung, Indonesia,*** [2]***STIES Saleh Budiman Tasikmalaya, Indonesia***
***Adi.susandi86@gmail.com***

***ABSTRAK***

*Dalam perkembangan keuangan Islam, isu riba tetap menjadi tantangan utama yang memengaruhi inovasi produk perbankan. Penelitian ini bertujuan untuk mengkaji bagaimana berbagai interpretasi mengenai riba berdampak pada pengembangan produk di lembaga keuangan Islam di Indonesia. Metode yang digunakan adalah kualitatif dengan tinjauan pustaka sistematis, di mana data diperoleh dari karya ilmiah, fatwa DSN-MUI, dan praktik operasional bank Islam. Analisis tematik digunakan untuk mengidentifikasi pola serta isu utama yang membentuk produk keuangan Islam. Hasil penelitian menunjukkan bahwa beragam pemahaman tentang riba, dari mazhab klasik hingga pemikiran ulama kontemporer, telah mendorong formalitas kontrak seperti murabahah, ijarah, dan musyarakah. Meskipun secara hukum sah, kontrak-kontrak tersebut sering kali meniru mekanisme keuangan konvensional dan tidak sepenuhnya memenuhi tujuan etis maqāṣid al-shar'iah, menimbulkan kekhawatiran terhadap keaslian dan kredibilitas jangka panjang perbankan Islam. Studi ini merekomendasikan pendekatan multidisiplin yang berfokus pada maqāṣid, yang mencakup teori hukum Islam, ekonomi perilaku, dan analisis sosial budaya, untuk meningkatkan relevansi dan integritas produk. Pendekatan ini sangat penting untuk menjaga kepercayaan masyarakat dan memastikan perkembangan keuangan Islam sebagai sistem yang berlandaskan nilai serta responsif terhadap dinamika ekonomi modern.*

***Kata Kunci:***
*Perbankan Islam, Maqashid Syariah, Inovasi Produk, Regulasi, Riba*

***ABSTRACT***

*In Islamic finance's development, riba (usury) remains a significant challenge affecting banking product innovation. This study examines how various interpretations of riba impact product development in Islamic financial institutions in Indonesia. The method used is a qualitative systematic literature review, with data drawn from scholarly works, fatwas issued by the National Sharia Council (DSN-MUI), and the operational practices of Islamic banks. Thematic analysis was used to identify key patterns and issues shaping Islamic financial products. The results show that from classical schools of thought to contemporary Islamic scholars, diverse understandings of riba have driven the formalization of contracts such as murabahah, ijarah, and musharakah. Although legally valid, these contracts often mimic conventional financial mechanisms and do not fully fulfill the ethical objectives of maqāṣid al-shar'iah, raising concerns about the authenticity and long-term credibility of Islamic banking. This study recommends a multidisciplinary approach focused on maqāṣid, encompassing Islamic legal theory, behavioral economics, and sociocultural analysis, to enhance product relevance and integrity. This approach is crucial to maintaining public trust and ensuring the development of Islamic finance as a value-based system responsive to the dynamics of the modern economy.*

***Keywords:***
*Islamic Banking, Maqashid Sharia, Product Innovation, Regulation, Riba*

 ***DOI: doi.org/10.52593/mtq.06.2.04***
***Article Aaccepted: July 10, 2025, Revised: July 30, 2025, Approved: July 31, 2025.***

**Introduction**

One of the main distinguishing features between the Islamic and conventional economic systems lies in the concept of riba (usury). Riba is categorically prohibited in Islamic law and is described in the Qur'an not only as unlawful but as a grave injustice. In Surah *Al-Baqarah* (2:275–279), Allah declares: "Those who consume riba will not stand [on the Day of Judgment] except as one stands who is Satan by beating into insanity… But Allah has permitted trade and forbidden riba" (Q.S. 2:275). The verses go further to warn believers to abandon any remaining involvement with usury or face a declaration of war from Allah and His Messenger (Q.S. 2:279). Additionally, the Prophet Muhammad ﷺ said: "The one who consumes riba, the one who gives it, the one who writes it down, and the two who witness it – all of them are equal in sin" (Sahih Muslim, no. 1598). In the modern context, this strong doctrinal stance forms the foundation for establishing Islamic financial institutions, particularly Islamic banks. However, as financial products evolve, debates emerge regarding how the boundaries of *riba* are understood and operationalized. These debates are not static; they reflect a dynamic interplay of interpretations among scholars, academics, and practitioners who seek to align sharia compliance with the realities of contemporary finance.

Previous studies have highlighted changes in perceptions and understandings of *Riba* in modern Islamic economics. For example, a survey by Ascarya (2017) states that contemporary interpretations of *riba* have given birth to various forms of financial contract innovations in Islamic banking products. Meanwhile, Rizal and Lubis (2020) emphasized the challenge of balancing sharia principles and competitive market demands. Another study by Kholid (2015) shows that although Islamic banks are interest-free, fixed-margin financing practices are often considered like conventional practices, thus raising criticism of the authenticity of such sharia practices.

The gap that emerges from this literature is the lack of a thorough discussion of how the dynamics of the concept of *riba* are not only understood normatively-theologically, but also how it impacts the development of practical Islamic banking product innovations. In addition, there is a discrepancy between the theories of usury in the classical literature and their application in the context of the complex modern financial system. Several contemporary scholars, such as Umar Chapra and Monzer Kahf, have attempted to provide a new interpretation of *riba* by considering sharia *maqashid*. Still, the influence of this thought on banking product strategies in Indonesia has not been comprehensively studied.

This research aims to analyze the dynamics of *riba* from the classical to contemporary periods and evaluate its influence on the innovation of Islamic banking products in Indonesia. The context raised is Indonesia's growing Islamic financial system, which faces regulatory challenges, market competition, and the dynamics of the National Sharia Council's fatwas. The unit of analysis in this study is the concepts of *riba* in Islamic literature, DSN-MUI policies, and fatwas, as well as the form of Islamic bank products that have the potential to touch on the issue of usury.

This article uses a literature study approach by exploring a variety of classical and contemporary literature, including research results, fatwas, and Islamic bank policy documents. The author also uses a normative-theological approach and qualitative analysis to see the relationship between the concept of *riba* and the innovation of sharia products. In the structure of this article, the discussion will begin with a literature review on *Riba* and Sharia product innovation, followed by study methods, discussion analysis, conclusions, and recommendations.

With this structure, this article is expected to make a scientific contribution in expanding the discussion on the relevance and application of the anti-usury principle in developing Islamic banking products in Indonesia. In addition, this article aims to fill the void in the literature discussing *riba* only from the normative side, without examining its impact on the creativity and innovation of Islamic banking. Therefore, the existence of this article is essential, especially amid efforts to strengthen the national Islamic financial sector within the framework of sharia *maqashid.*

## Method

This study employs a qualitative approach using the library research method, which is particularly suited to exploring normative, conceptual, and historical dimensions of *Riba* within Islamic economic thought. Given that *Riba* is not only a regulatory issue but also a deeply rooted ethical and jurisprudential concept, a textual and discursive analysis is necessary to trace its interpretations across classical and contemporary sources. The research draws on a wide range of materials, including classical Islamic jurisprudence texts (*turāth*), contemporary scholarly publications, peer-reviewed journals, DSN-MUI fatwas, regulations, and official reports from Islamic financial institutions in Indonesia. This method comprehensively examines how *Riba* is defined, debated, and operationalized over time and across institutions. While empirical methods such as case studies or interviews with practitioners could offer insight into implementation practices, this research intentionally focuses on the foundational conceptual debates that shape those practices. The aim is to map the epistemological and jurisprudential landscape influencing product development before assessing field-level applications in future research. Thus, library research provides the necessary analytical depth and doctrinal grounding to critically evaluate the intellectual underpinnings of RIBA-related banking innovation.

The main instrument in this study is documents, which consist of published written materials in print and digital form. The data collected is then analyzed using descriptive-analytical techniques by identifying essential themes, grouping the opinions of Islamic economic scholars and experts, and comparing them with actual practices in Islamic banking products such as *Murabahah*, *Musyarakah*, and *Ijarah*.

The presence of researchers in this literature study is active in interpreting data and drawing conclusions from the available literature. This research was conducted between March and May 2025. The research location is administratively located at STIES Saleh Budiman, but the data sources come from various national and international institutions and publications. The validity of the data was tested through the source triangulation technique by comparing data from multiple documents and authoritative opinions, as well as the relevance and strength of the arguments of each source analyzed.

With this method, it is hoped that the research results will be highly valid, relevant to the development of contemporary Islamic banking practices, and contribute to the development of academic discourse in the fields of Islamic economics and Islamic banking.

## Result

The results of this study show that the dynamics of understanding the concept of *Riba* are very influential in the development of Islamic banking product innovations in Indonesia. One of the main findings is that scholars’ and practitioners' understanding of the definition and type of *riba* is not entirely uniform, resulting in a variety of interpretations that then affect product design.

*Table 1. Summary of Sharia Bank Products and Implications for the Concept of Riba*

| No. | Product Name | Main Contract | Potential Related to Riba |
|---|---|---|---|
| 1. | *Murabahah* | Buying and selling | Fixed margins are perceived to resemble interest |
| 2. | *Musyarakah Mutanaqisah* | Partnership | Vulnerable to contract abuse |
| 3 | A Bit of Tamil Nadu | Rent - Sell | The obligation to buy at the end is considered an interest-like pressure |

*Source: Data processed from the DSN-MUI Fatwa and Islamic banking literature (2020–2024)*

Over time, Islamic banks continue to strive to innovate in creating products that are sharia-compliant and commercially attractive. However, in practice, challenges remain, such as competitive pressure with conventional banks, the need for system efficiency, and limited customer understanding.

Although structured using sharia-compliant contracts, some Islamic banking products have raised critical concerns for resembling the economic substance of *riba*-based transactions. A notable example is the widespread use of *murābaḥah* (cost-plus sale) in asset financing. In theory, *murābaḥah* involves the bank purchasing an asset and then selling it to the customer at an agreed profit margin. However, in many operational settings, especially in Indonesia, the execution often involves the bank never taking actual possession of the asset. Instead, the transaction is executed through paper-based documentation, where the bank acts as a financier rather than a genuine trader.

This mechanism can mimic the structure of conventional interest-bearing loans, as the bank receives a fixed return over time, regardless of asset performance or market risk. While labeled differently, the profit margin is often calculated similarly to interest and is payable in installments over a fixed tenure—closely resembling an amortized loan contract. Such practices raise concerns about legal form overriding economic substance, potentially conflicting with the Qur'anic prohibition of *riba*. Scholars such as Taqi Usmani and Muhammad Ayub have warned that these transactions risk becoming functionally indistinguishable from usurious lending without genuine risk-taking or asset ownership.

Another finding is that the synergy between the Sharia Supervisory Board (DPS) and the product development unit has not been optimal in ensuring that innovation remains within the limits of sharia compliance. Most of the products are approved based on global fatwas or benchmarking from other countries, such as Malaysia, without complete adaptation to the local context.

Therefore, the results of this study show the importance of reviewing the *fiqh* approach in Islamic banking innovation, so that it is not only formalistic but also substantial. The approach of *maqashid* and collective ijtihad is crucial in maintaining the originality and public trust in the Islamic financial system.

**Discussion**

The findings of this study make an essential contribution to the discourse of understanding *Riba* in the context of contemporary Islamic banking. Based on the results of the literature study, the diverse perceptions and definitions of usury, both in terms of classical *fiqh* and modern interpretation, greatly influence the design and innovation of Islamic bank products. This answers the formulation of the main problem in this study, namely, how the dynamics of the concept of riba shape the direction of innovation in Islamic financial products.

First, based on the findings in the previous section, it can be interpreted that although the principle of prohibition of *riba* is the normative basis for Islamic banking operations, in practice, there is still a common point with the practice of interest in the conventional system, especially in products such as *murabahah* and ijarah *muntahiya bit tamlik*. This shows that the formalistic approach to avoiding *riba* still dominates over the more substantial approach of sharia *maqashid*. This interpretation aligns with the criticism conveyed by El-Gamal (2006) in his study on "Islamic Finance: Law, Economics, and Practice", which states that many Islamic financial products only undergo form transformations without changes in substance.

Second, differences in interpretations of *riba* encourage variations in product innovation approaches in each Islamic financial institution. For example, Islamic banks affiliated with more progressive fatwa institutions tend to dare to develop new products such as hybrid contracts or social sukuk. Meanwhile, conservative institutions are more cautious and stick to classic contracts. This shows that the position of scholars, the Sharia supervisory board, and the fatwa framework greatly determine the direction and courage of product innovation. These findings also corroborate a study by Rahman (2021) in the Journal of the

Review of Islamic Economics, highlighting the influence of different interpretations of *riba* on the regulation and product strategy of Islamic banks in Southeast Asia.

Third, the dynamics of usury also have implications for public trust. In some cases, products considered too like interest—such as fixed-margin *murabahah* financing—have declined interest, especially from young people and academics who are more critical of sharia compliance. Therefore, innovations that not only legally adjust but also touch on the values of fairness, transparency, and partnership are considered more capable of attracting market attention. This is in line with the findings of Bashir's (2019) research in the Journal of Islamic Marketing, which states that the trust factor and perception of sharia authenticity are the main variables in the loyalty of Islamic bank customers.

Fourth, suppose it is related to the theory of *maqashid* sharia. In that case, the practice of *riba* is not only a matter of the form of contract, but rather about the impact and economic goals produced. Islamic financial products should not only explicitly avoid interest but also prevent exploitative practices, injustice, and inequality. This approach supports the thinking of Chapra (2008), which encourages the transition from a legalistic approach to a substantial one in the development of Islamic economics. In this context, Islamic banks need to build inclusive products that are economically profitable and bring social benefits.

Fifth, based on a comparison of global literature and practice, countries such as Malaysia and the United Arab Emirates have already implemented *maqashid*-based product innovations, such as inclusive and zakat-linked financing. Indonesia must catch up by strengthening collective ijtihad, DPS capacity, and synergy between regulators and industry players. This can be seen in a study by Yusof and Shamsiah (2020) in the International Journal of Islamic and Middle Eastern Finance and Management, which emphasizes the importance of value-based innovation in maintaining the competitive advantage of Islamic banks.

From all these results and interpretations, it can be drawn that the development of Islamic bank products is not enough to rely only on a halal contract in *fiqh*. It must also consider Islamic values' context, perception, and integrity. The dynamics of *Riba* are an essential indicator of the authenticity and sustainability of the Islamic financial system in the future. Therefore, the findings of this study encourage the need for a multidisciplinary approach that combines *fiqh*, economics, consumer behavior, and strategic management in the development of Islamic bank products.

**Conclusion**

This study has explored how Riba's evolving interpretations influence Islamic banking products' design and development, particularly within the Indonesian context. The findings confirm that while many Islamic financial instruments comply with formal legal standards, their substance occasionally replicates the logic of conventional interest-based finance. This tension highlights the need to go beyond *fiqh*-based compliance toward a more holistic framework rooted in the objectives of Islamic law (*maqāṣid al-sharīʿah*).

The paper's core contribution proposes a *maqāṣid*-oriented and multidisciplinary approach to Islamic financial product development. By integrating insights from Islamic jurisprudence, behavioral economics, and socio-legal analysis, this framework emphasizes legality, ethical coherence, social justice, and public trust. Such a paradigm encourages innovation that is both sharia-compliant and authentically value-driven. Future research should include empirical studies that examine how *maqāṣid al-sharīʿah* are—or are not—reflected in the actual practices of Islamic banks. Case studies, interviews with Shariah boards, and content analysis of product contracts can provide richer insights into the gap between theory and implementation. A comparative study across jurisdictions may also reveal how contextual factors shape the understanding and application of RIBA in practice.

Second, inconsistencies in applying the principles of Sharia *maqashid* are a serious challenge. Many Islamic banking products have not fully considered the main objectives of Sharia (*maqashid*), such as justice, transparency, and social welfare. This impacts the public's perception of the authenticity and relevance of Sharia practices in the context of modern finance.

Third, the Sharia Supervisory Board (DPS) and fatwa institutions greatly influence the space for product innovation. The difference in courage in carrying out ijtihad between one institution and another makes the innovation of Islamic bank products not uniform and tends to be conservative. In fact, within the framework of sharia *maqashid* and with the strengthening of contextual regulations, innovative products that still hold the basic principles of sharia are very likely to be developed.

Fourth, in future development, it is important for Islamic banking institutions to strengthen a multidisciplinary approach that emphasizes *fiqh* compliance but also pays attention to market needs, consumer education, and the comprehensive integration of

Islamic values. This will strengthen the Islamic finance industry's competitiveness while maintaining public trust.

The implications of this study open prospects for further empirical studies, for example, through case studies of certain products that successfully represent the Sharia *maqashid* in a real way. In addition, follow-up research can also trace customer responses to products considered close to *riba* from the perspective of consumer experience and perception.

**Acknowledgments**

The author expresses his highest appreciation to all parties who have contributed and supported in the process of writing this article, especially to the supervisors at UIN Sunan Gunung Djati Bandung where I studied in the doctoral program of Islamic law concentration in sharia economic law and STIES Saleh Budiman where I work, fellow researchers, and Islamic banking institutions which are the primary sources of reference in the preparation of the study Ini. This article can provide real benefits and contributions to the development of Islamic economics in Indonesia.

**Reference**

Ascarya. (2017). Islamic Financial Architecture to Promote Financial Inclusion. Journal of Islamic Monetary Economics and Finance, 3(1), 1–20.

Bashir, A. M. (2019). Determinants of customer loyalty in Islamic banking: Evidence from Indonesia. Journal of Islamic Marketing, 10(2), 346–368.

Chapra, M. U. (2008). The Islamic Vision of Development in the Light of Maqasid Al-Shariah. Islamic Research and Training Institute.

El-Gamal, M. A. (2006). Islamic Finance: Law, Economics, and Practice. Cambridge University Press.

Effendi, M. R., Darma, S. H., & Wajdi, F. (2022). The Commodification of Religion in the 2012 Regional Election of Purwakarta Regency. Hayula: Indonesian Journal of Multidisciplinary Islamic Studies, 6(1), 123–150.

Effendi, M. R., Ismail, Y., Darma, S., Wulandari, D., & Adzra, Z. (2022, July). The Theology of Entrepreneurship: The Identity of The Millennial Muslim Student Entrepreneurship Movement in Universities. In Proceedings International Conference on Islam and

Education (ICONIE) (Vol. 2, No. 1).

Effendi, M. R., Aulia, R. N., Amaliyah, A., & Salsabila, N. F. (2023). Integration of Prophetic Social Science-Based Islamic Education in Strengthening Students' Religious Diversity. Muttaqien: Indonesian Journal of Multidisciplinary Islamic Studies, 4(2), 161–176.

Hadiyanto, A., Effendi, M. R., Narulita, S., & Wajdi, F. (2020). Islamic Religious Education for Universities. Jakarta: Fikra Publika.

Kholid, M. (2015). Islamic Banking Product: Between Substance and Form. Journal of Islamic Economics La_Riba, 9(2), 101–120.

Rahman, F. (2021). Fatwa dynamics in shaping Islamic banking product development: Lessons from Southeast Asia. Review of Islamic Economics, 25(1), 75–95.

Rizal, S., & Lubis, M. A. (2020). Inclusivity of Islamic Financial Products in Encouraging Equitable Economic Growth. Journal of Iqtisaduna, 6(1), 56–70.

Yusof, M., & Shamsiah, F. M. (2020). Value-Based Intermediation and Financial Sustainability in Islamic Banks. International Journal of Islamic and Middle Eastern Finance and Management, 13(2), 321–342.

Effendi, M. R. (2021). Islamic Theology: A Portrait of the History and Development of Kalam School of Thought. Literacy of the Archipelago.

Hasan, Z. (2020). Riba, Interest and Six Hadiths: Do We Have a Definition or a Conundrum? Review of Islamic Economics, 24(2), 157–180.

Iqbal, M., & Mirakhor, A. (2011). An Introduction to Islamic Finance: Theory and Practice. John Wiley & Sons.

Ismail, A. G. (2010). Money, Islamic Banks and the Real Economy. Cengage Learning Asia.

Khan, T. & Ahmed, H. (2001). Risk Management: An Analysis of Issues in the Islamic Financial Industry. Islamic Research and Training Institute.

Kuran, T. (2004). Islam and Mammon: The Economic Predicaments of Islamism. Princeton University Press.

Lewis, M. K., & Algaoud, L. M. (2001). Islamic Banking. Edward Elgar Publishing.

Obaidullah, M. (2005). Islamic Financial Services. Islamic Economics Research Center.

Saeed, A. (1999). Islamic Banking and Interest: A Study of the Prohibition of Riba and Its Contemporary Interpretation. Brill.

Usmani, M. T. (2002). An Introduction to Islamic Finance. Idaratul Ma'arif.

Vogel, F. E., & Hayes, S. L. (1998). Islamic Law and Finance: Religion, Risk, and Return. Brill.