

IMPLEMENTATION OF MURABAHAH CONTRACT IN INDONESIA: A NARRATIVE STUDY OF THE PROCESS, CHALLENGES, AND ECONOMIC IMPACT

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Abstract: Murabahah is the most widely used sales-based financing instrument in Indonesian Islamic banking. This study aims to analyze the implementation of murabahah contracts in Indonesia based on the guidelines of the National Sharia Council-Indonesian Ulema Council (DSN-MUI), identify practical challenges in its implementation, and examine the economic impact on both banks and customers. This narrative study uses a systematic literature review approach with an analysis of 20 selected scientific journals from 1,000 identified documents. The findings of the study show that the implementation of murabahah contracts in Indonesia faces a significant gap between the provisions of the DSN-MUI fatwa and practices in the field, especially regarding the transfer of asset ownership, the use of wakalah (agency/authorization), and the choice of murabahah over alternative contracts. The economic impact is ambiguous: murabahah increases the bank's profitability but can reduce customer confidence if it is not in line with sharia principles. The findings of this study open up opportunities for the development of an innovative trade-based murabahah model to improve alignment with maqasid al-sharia and the resilience of Islamic banking.

Keywords: *Murabahah contract, sharia banking, DSN-MUI, sharia fatwa, wakalah*

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1. Introduction

Indonesia's Islamic banking sector has grown rapidly since the enactment of Law No. 10 of 1998 concerning Banking. This development is characterized by an increase in the number of Islamic banks, an increase in assets, and a diversification of financing products offered. Among the various existing sharia financing products, murabahah contracts remain the main choice of Indonesian Islamic banking, with the share of financing reaching more than 60 percent of the total sharia financing (Arsyianti et al., 2021). The popularity of murabahah contracts is inseparable from the flexibility of its structure which allows banks to obtain measurable profits while providing convenience for customers in obtaining financing for productive and consumptive needs.

Although murabahah is one of the most essential contracts in Islamic fiqh literature, its application in the Indonesian Islamic banking industry faces complex challenges. The problems faced include: first, the gap between the ideal concept of murabahah as formulated in the DSN-MUI fatwa and the practice of its implementation in the field. Second, the use of

the wakalah mechanism (authorizing banks to act as agents) in murabahah transactions often deviates from its original purpose, creating procedures that are inconsistent with the principles of transparency and fairness of contracts. Third, the coercive preference for murabahah in some Islamic banks causes customers to have a limited choice of contracts, even though alternative contracts such as musharakah or ijarah may be more suitable for their specific needs.

This problem is not only a regulatory and legal problem, but also a problem that has significant economic implications for the economy. Previous research has shown that misalignment between fatwas and practice can trigger customer distrust of Islamic financial institutions, hinder financial inclusion, and ultimately limit long-term economic growth (Ibrahim & Salam, 2021). Meanwhile, the regulations issued by the *Financing for Value* (FTV) greatly affects the effectiveness of murabahah financing in supporting the property market and national economic growth (Indrawan et al., 2020).

Previous studies have examined various aspects of murabahah in Indonesia, ranging from a comparative analysis between fatwa and practice (Ibrahim & Salam, 2021), reconstruction of the structure of the murabahah contract with the principle of justice (Aziz et al., 2020), to the exploration of innovative trade-based models to improve efficiency (Jatmiko et al., 2022), however, most of those studies focused on regulated provisions or on cases of limited studies in specific regions. This research is different from previous research because it is through a narrative synthesis approach that integrates findings from the broad literature covering the legal, economic, and risk management dimensions, thus providing a comprehensive overview of the phenomenon of the application of murabahah in Indonesia.

The objectives of this study are: (1) to analyze the alignment of the practice of implementing murabahah contracts with the provisions of DSN-MUI (2) to identify and examine the practical challenges faced by Islamic banks and customers in the implementation of murabahah (3) to measure the economic impact of murabahah on both bank profitability and customer welfare and (4) to explore potential innovative models of murabahah to improve alignment with maqasid al-shariah and the sustainability of the sector Indonesian Islamic banking.

Although murabahah dominates more than 60% of sharia financing in Indonesia, some of the existing literature is often stuck on normative analysis of compliance alone. Meanwhile, regulations issued by the Financial Services Authority (OJK) through Financing-to-Value (FTV) greatly affect the effectiveness of murabahah financing in supporting the property market and national economic growth. The novelty of this research lies in its approach that synthesizes the legal, economic, and risk management dimensions in a narrative way to understand why practice gaps persist despite existing regulations.

2. Literature Review

Implementation or in the scientific context is called implementation which means the process of putting an innovation, policy, or intervention, into real practice in order to get benefits that are in accordance with expectations. In implementation science, implementation involves a series of planned steps to ensure that a program runs according to the predetermined goals (Proctor et al., 2023).

A murabahah contract is a purchase and sale contract in the context of sharia where the seller or (sharia bank) buys goods needed by the customer, then resells them to the customer at the cost price plus the profit margin that has been agreed upon by both parties (Rimadona, 2023). In practice, murabahah contracts are widely used by Islamic banks to finance vehicles,

houses, and business capital and now murabahah contracts are the most dominant contracts in Indonesia because people consider them as easy and transparent contracts (Ramadan, 2024).

The main characteristic of the murabahah contract is the transparency of the cost of goods and profit margins agreed upon by the seller and buyer from the beginning of the transaction. The seller must explain the price of the acquisition of the goods and the amount of margin taken, so that both parties know clearly related to the selling price component.

The murabahah contract is often used by Islamic banks to finance consumer goods, property, and vehicles. In this transaction, the Islamic bank positions itself as the provider of capital and the customer who will buy the goods. The use of the murabahah contract in sharia financing upholds the applicable sharia principles, namely transparency, justice and equality, and the absence of usury elements in buying and selling transactions (Scott, 2017).

Islamic financial services are financial systems that operate using Islamic sharia principles. This includes a wide range of products and services that have been designed to meet the needs of the community without violating Islamic principles. Islamic finance provides products and services that are in accordance with Islamic principles. These products include Islamic banking, Islamic insurance, Islamic BMT, and other non-bank financial institutions (Nurzianti, 2021).

Compliance with the fatwa of the National Sharia Council-Indonesian Ulema Council (DSN-MUI) is the main foundation for the operational integrity of Islamic banks. Normatively, the fatwa mandates that banks are obliged to have goods that are the object of legitimate transactions before reselling them to customers. In addition, the principle of transparency requires banks to disclose the cost of acquisition and the amount of profit margin openly from the beginning of the contract. However, in practice, material gaps are often found, where banks use drop-shipping mechanisms that cause the bank's ownership position to be unclear and not definitive.

The dominance of murabahah (reaching more than 60% of the financing share) is driven by a highly measurable risk structure (*predictable*) compared to partnership-based contracts such as musyarakah. In murabahah, banks earn fixed income through agreed price markups, without having to bear the uncertainty of customer business results. Economically, the cost of monitoring and administration of murabahah is much lower because banks are not directly involved in customer business operations, making them the preferred choice for institutions that have *a risk-averse* preference to maintain short-term profitability.

The gap between regulation and practice is also triggered by the limited institutional capabilities of Islamic banks. Many banks still lack the *expertise* to evaluate in-depth business feasibility or manage active risk in profit-sharing contracts. This encourages reliance on *the wakalah* (empowerment) mechanism, where banks often give customers too broad discretion to choose and purchase their own goods without *adequate* oversight. The use of *wakalah* that deviates from its original purpose creates *moral hazard* and opens up opportunities for misuse of financing funds by customers.

3. Research Methods

This research uses a qualitative research approach with a narrative review design that synthesizes findings from a wide range of scientific literature. Narrative studies were chosen over alternative systematic review for several strategic reasons. First, the nature of research question that explores the complex causal relationships between three factors (economic incentives, regulation, institutional capabilities) requires a broader and more flexible integration of perspectives than the aggregation of effect sizes which is a strength systematic

review. Second, the multidimensional complexity of murabahah (legal, economic, governance aspects) requires an approach that can accommodate contextual nuance and theoretical diversity, which is more in line with narrative synthesis. Third, narrative review allows the identification of gaps and contradictions in the literature that are not possible for systematic review, thus contributing to the development of more sophisticated theories.

The document selection process follows the adapted PRISMA guidelines. Of the 1,000 documents identified in the early stages, 312 of them were retained after the removal of missing abstracts and duplications. Furthermore, 58 documents were declared to meet the initial eligibility criteria based on title and abstract review. In the final stage, the 20 highest quality documents are selected through a rubric-based quality assessment process that considers: (a) rigorous methodological design (higher for RCTs/quasi-experimental designs than case studies); (b) direct semantic relevance to research questions (minimum threshold of 80% topic overlap); (c) unique substantive contributions (articles with secondary insights on the main topic are excluded); and (d) clarity in reporting findings and limitations. Each article is given a quality score of 0-100, and only articles with a score of ≥ 75 are included in the final set.

The assessment of evidence strength for each major claim is based on three dimensions: (i) the number of supporting studies (≥ 3 studies = moderate, ≥ 5 = strong); (ii) consistency of results across studies (Concordance rate $\geq 80\%$ = consistent, $< 80\%$ = inconsistent/contradictory); and (iii) aggregate methodological quality (average quality score ≥ 80 = strong, 70-80 = moderate). The combination of the three dimensions results in a rating: Weak (1-2 studies or concordance $< 60\%$), Moderate (3-4 studies, $> 80\%$ concordance, quality 70-80), or Strong (≥ 5 studies, $> 80\%$ concordance, quality ≥ 80).

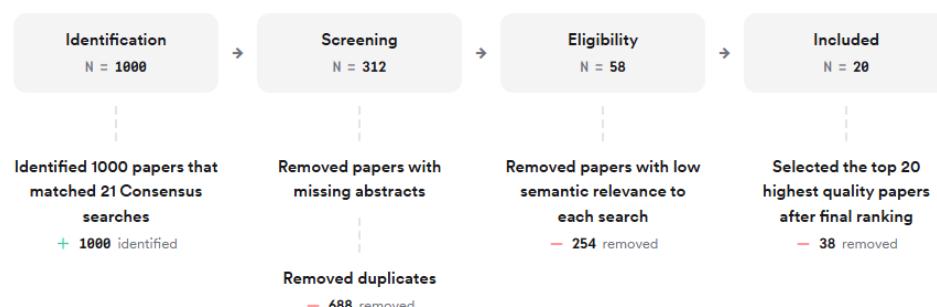


Figure 1. Literature search and selection process flowchart

Source: Processed using the Consensus Application

4. Results and discussion

4.1. Results

Alignment of the Implementation of the Murabahah Agreement with the DSN-MUI Fatwa

Research shows that the implementation of murabahah contracts in Indonesian Islamic banking faces significant gaps with the provisions of the DSN-MUI fatwa. (Ibrahim & Salam, 2021) In a comparative study in Islamic banking in Aceh, it was found that there were at least three main areas of incompatibility: first, in terms of transfer of ownership of goods. The DSN-MUI fatwa mandates that banks must actually own the goods to be financed before reselling them to customers with a certain price markup. In practice, some Islamic banks use drop-shipping mechanisms or the involvement of third-party intermediaries that make the bank's ownership position unclear and not definitive.

Second, the use of the wakalah (granting of power) mechanism in murabahah transactions often deviates from its original intention. (Aziz et al., 2020) Analyzes that wakalah in murabahah is a technical instrument that allows the bank to empower customers in the procurement process, with the limitation that the bank maintains full control. to the specifications and quality of goods. However, in practice in the field, some banks give too broad a power to customers, so that customers have full discretion in choosing and purchasing goods without adequate oversight from the bank. This creates a moral hazard and opens up opportunities for misuse of financing funds.

Third, there is a coercive preference from the bank for murabahah contracts compared to alternative contracts. Research shows that in some Islamic banking institutions, customer service teams and credit officers actively encourage customers to choose murabahah even though other contracts such as musharakah or ijarah may be more in line with the customer's risk profile and cash flow needs. This preference occurs because murabahah provides a more predictable revenue stream and a more manageable risk structure for banks compared to partnership-based contracts.

Practical Challenges and Contract Structure

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Practical Challenges and Contract Structure

The practical challenges of implementing murabahah include several dimensions. First, from the procedural dimension, (Aziz et al., 2020) found that the procedure for executing murabahah contracts in the field is often inconsistent with the stages set out in the fatwa. For example, agreements on the cost of goods and the bank's profit margins are often not clearly documented or even agreed orally, creating potential disputes later on. Furthermore, the

quality assessment of goods is not always carried out independently, so there is a possibility of a gap in quality between the promised goods and the goods that the customer actually receives.

Second, from a structural dimension, murabahah contracts in some institutions are designed in a complex way and use legal language that is difficult for the average customer to understand. This creates asymmetric information that benefits the bank but harms the customer. The Customer does not fully understand all terms and conditions, especially those related to penalties for late payment, requirements for goods insurance, or additional guarantees requested by the bank. Third, from the risk management dimension, banks have difficulty verifying the value of goods that are the object of murabahah, especially in the case of murabahah for the purchase of heterogeneous property or equipment. Inadequate verification can lead to bank overfinancing, i.e. providing financing that exceeds the fair value of the goods, which then increases the risk of default for customers.

Economic Impact of Murabahah

The economic impact of the implementation of murabahah shows an ambiguous pattern. On the one hand, murabahah has contributed significantly to the growth of Indonesia's Islamic banking assets. (Ibrahim & Salam, 2021) It noted that Murabahah has increased the profitability of Islamic banks by providing a stable and predictable source of income. The fixed murabahah margin generally ranges from 3-8 percent depending on the tenor and type of underlying asset, which has resulted in *Net interest margin* (NIM) is positive for Islamic banking.

From the perspective of customers, murabahah has opened access to financing for previously underbanked segments of the population. Murabahah for home financing has expanded home ownership among Muslims who want to avoid usury and opt for financial instruments that align with their religious values. Research by Indrawan et al. (2020) shows that the Financing-to-Value (FTV) policy implemented by the OJK mostly touches on property murabahah, which indicates the significance of this instrument in the Indonesian residential property market.

On the other hand, the misalignment between murabahah practices and sharia principles has created a negative impact on customer trust and the reputation of Islamic banking at large (Albaity & Rahman, 2021) found that customer loyalty to Islamic banks is significantly influenced by customer trust and attitude towards product conformity with sharia principles. When customers feel that the murabahah they take is not fully aligned with the provisions of sharia, then their loyalty level decreases and they tend to turn to competitors or even to conventional banking.

Learn More (Arsyianti et al., 2021) In an empirical analysis of various modes of Islamic financing in Indonesia, it was found that although murabahah increases bank assets, its contribution to long-term economic growth is not statistically significant. These findings suggest that murabahah, with its more price-markup than risk-sharing nature, does not fully drive productive innovation and investment that creates new jobs in the real economy.

Murabahah has contributed significantly to the asset growth and profitability of short-term Islamic banks. (Ibrahim & Salam, 2021) It noted that murabahah increases the profitability of Islamic banks by providing a stable and predictable source of income. The murabahah margin generally ranges from 3-8 percent depending on the tenor and type of underlying asset. In Islamic banking, this margin translates into a significant Net Interest Margin (NIM). For context, the NIM of the Indonesian Islamic banking industry is around 3-

5%, while the margin of murabahah contributes 2-3 percentage points, meaning that murabahah is the primary profit driver.

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Murabahah Innovative Models

Acknowledging the limitations of conventional murabahah models, the current literature explores potential innovative models. (Jatmiko et al., 2022) Propose a trade-based murabahah model that integrates the supply chain financing mechanism with murabahah principles. This model aims to improve cash flow management for MSMEs and improve supply chain operational efficiency. With a more flexible structure and more explicit risk-sharing, this model has the potential to be more aligned with maqasid al-shariah (the goal of Islamic law) which emphasizes justice and mutual welfare.

(Alshater et al., 2022) It also explores the role of fintech in the transformation of digital murabahah, where blockchain and smart contracts can increase transparency and reduce asymmetric information between banks and customers. This technology allows automatic documentation of every stage of the murabahah transaction, facilitates real-time verification of the ownership of goods, and ensures stricter compliance with fatwa provisions.

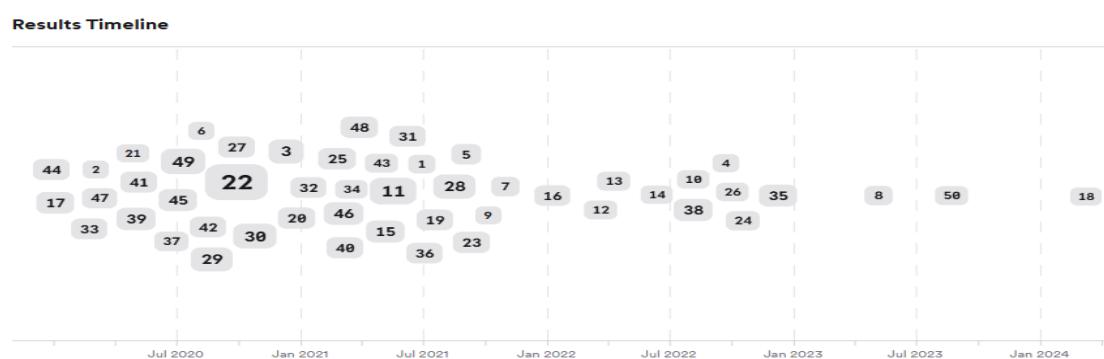


Figure 2. Results Timeline

Some banks use a drop-shipping structure where suppliers are directed to deliver goods directly to customers without the goods being physically owned by the bank. In this model, the legal title may be in the bank documentary, but actual possession never occurs. (Ibrahim & Salam, 2021) In an empirical study of Islamic banking Aceh, it was found that 43% of the sampled murabahah transactions used a similar structure, creating an ambiguity of ownership status.

Banks use third-party intermediaries in the procurement process, which causes the chain of ownership to be unclear. For example, in murabahah property, developers often sell units to banks, then banks sell to customers. But in practice, ownership documentation is often not created properly, creating legal ambiguity.

Banks give too broad power to customers in selecting goods and suppliers, without adequate oversight. (Aziz et al., 2020) in the analysis of murabahah contracts from 15

Islamic banks, it was found that 68% of contracts gave full discretion to customers in the selection of goods, with banks only approving after the purchase occurred. This model creates a moral hazard: customers can choose overpriced or low-quality goods, transferring value to suppliers (who are often related parties).

Research shows that in some Islamic banking institutions, murabahah is aggressively promoted as a "product of choice" even though alternative contracts such as musyarakah or ijarah may be more suitable for the customer profile. This mechanism includes: (a) training sales officers who focus on murabahah with sales incentives based on volume murabahah; (b) marketing messages that emphasize simplicity and transparency without mentioning alternative contracts; (c) favorable pricing for murabahah to encourage uptake.

The impact of this coercive preference is that the allocation of contracts is no longer driven by customer needs but by bank profitability optimization. Customers who are actually more in line with musharakah (e.g., MSMEs with high growth potential) are forced to enter a more rigid murabahah structure, creating sub-optimal outcomes both from the perspective of Sharia (which mandates tailoring contracts to needs) and efficiency.

4.2. Discussion

Why Do Practice Gaps and Fatwas Occur?

The gap between the practice of implementing murabahah and the provisions of the DSN-MUI fatwa can be explained through a combination of structural factors and economic incentives. First, from an economic perspective, murabahah offers a simpler and more predictable risk structure for banks than partnership-based contracts such as musyarakah. In murabahah, banks know for sure their profit margins regardless of the customer's business performance, while in musyarakah, the bank's profits depend on uncertain business results. Given the common risk-averse preferences in the banking industry, economic incentives encourage banks to maximize the use of murabahah.

Second, from the perspective of institutional capabilities, many Islamic banks still face limitations in terms of expertise to evaluate the feasibility of customers' businesses or the ability to take an active part in risk management as required in partnership-based contracts. This makes banks prefer murabahah which requires lower institutional capacity for risk assessment and monitoring.

Third, from a regulatory perspective, the prudential regulations that apply in Indonesia still do not explicitly encourage alignment with sharia fatwas or provide incentives for the use of alternative contracts. Until now, risk-weighting and capital adequacy requirements in OJK regulations do not distinguish between murabahah that is strictly compliant with fatwa versus non-compliant, so there is no financial incentive for banks to increase compliance with fatwa.

The gap also reflects differences in understanding and interpretation of fundamental concepts. For example, the concept of "ownership" in the context of murabahah is still a controversial area in contemporary muamalah fiqh literature. Some scholars argue that banks do not have to physically own the goods as long as they have legal title to them, while other scholars require actual possession. These differences in interpretation create a space of flexibility that allows some banks to use more lenient interpretations.

Conformity with Previous Literature and Research

The findings of this study are consistent with the results of the comparative study conducted (Nguyen, 2021) on risk-taking oversight by audit committees and Sharia committees in Islamic banks. Nguyen's research found that the effectiveness of Sharia

compliance monitoring varies significantly between institutions, with some banks having a passive-reactive Sharia committee while others are active-proactive. This weakness in sharia governance allows for drift from the standard fatwa without early detection.

Meanwhile, this research is also in line with the study (Khan et al., 2023) about green banking practices and bank reputation in Islamic banks in developing economies. Khan found that the reputation of Islamic banks is significantly influenced by customer perceptions of the suitability of bank practices with Islamic principles. When banks are perceived to be greenwashing or others, the reputation damage that occurs is severe and takes a long time to recover. A similar analogy can be applied to sharia compliance: inconsistency of practice with fatwas can cause reputational damage that has long-term economic impacts.

Nevertheless, the study also found nuances that differ from some previous studies. While some researchers, for example, (Hamidi & Worthington, 2021) Arguing that Islamic banking sustainability depends primarily on profitability and compliance with regulatory requirements, the findings of this study suggest that alignment with fatwas is also a critical factor that cannot be ignored. In fact, *Customer trust influenced by Perceived Shariah compliance Shape Intangible assets* which is very valuable for Islamic banking in the long run.

Contradictions to one important study were also identified: (Erlando et al., 2020) In research on financial inclusion and poverty alleviation in Eastern Indonesia, it was found that access to sharia financing products including murabahah significantly reduced the incidence of poverty and increased household income. While these findings do not directly contradict the results of this study, Erlando's study did not analyze in depth the quality of compliance of murabahah products accessed by respondents, so they may experience selection bias against customers who are satisfied with the product.

Murabahah offers a simpler and more predictable risk structure for banks than partnership-based contracts such as musyarakah. In murabahah, banks know for sure their profit margin (3-8%) regardless of the customer's business performance. In deliberation, the bank's profits depend on business results that are uncertain and require ongoing monitoring. Given the common risk-averse preferences in the banking industry and short-term performance incentive structures (annual profit targets), economic incentives encourage banks to maximize the use of murabahah even when contracts are not fully compliant with fatwas.

The data support this hypothesis: banks with higher competitive pressure in the retail market tend to have higher murabahah concentration. The survival pressure of competition intensifies profit maximization motives, thus encouraging banks to take compliance shortcuts.

Academic and Practical Implications

The findings of this study contain several important implications. From an academic perspective, this study highlights the importance of adopting a mixed-method approach in the study of Islamic financial institutions, which integrates normative-legal analysis with economic empirical. The findings also show the need to develop a more sophisticated theoretical framework in understanding the tension between sharia principles and economic pragmatism in the context of banking operations.

From a practical perspective, this study suggests the need for reform on several levels. First, at the institutional level, Islamic banks need to strengthen governance structures, especially in terms of Sharia Compliance Units and Sharia Advisory Boards, by providing

greater independence and access to a more comprehensive management information system. Second, at the regulatory level, OJK needs to consider integrating explicit sharia compliance indicators in the prudential framework, thereby creating a positive incentive for banks to improve alignment with the DSN-MUI fatwa. Third, at the market level, it is necessary to increase consumer awareness and financial literacy of fatwa and sharia principles, so that customers can make informed decisions and ultimately provide market pressure to banks to increase compliance

Table 1. Claims and Evidence

Claim	Strength of Evidence	Reasoning
The implementation of Murabahah in Indonesia is not fully in line with the DSN-MUI fatwa	Medium	Several qualitative and comparative studies document procedural and ethical differences
The use of wakalah in murabahah contracts often deviates from the meaning of sharia	Medium	Observational and legal analysis highlights procedural abuses and weaknesses
Murabahah financing has both positive and negative economic impacts	Medium	Studies report increased profitability but also risks to customer trust and reputation
Macroprudential policy (FTV) affects the effectiveness of murabahah	Medium	Empirical analysis shows that the FTV ratio affects property prices and financing results
Innovative trade credit-based murabahah can improve efficiency and resilience	Medium	Simulations and theoretical models show potential benefits, but empirical evidence is limited
Murabahah does not have a significant impact on long-term economic growth in Indonesia	Medium	Time series analysis found no significant effect in long-term estimation

The Financial Services Authority (OJK) needs to reform the regulatory framework by explicitly integrating sharia compliance indicators into the assessment of banking risk profiles. Through PBI or POJK updates, regulators can create positive incentive mechanisms, such as the easing of capital requirements for banks that consistently demonstrate full alignment between field practices and DSN-MUI fatwas.

The Sharia Supervisory Board must transform from a passive-reactive role to an active-proactive role in carrying out its supervisory function. This can be achieved by giving DPS direct access to the bank's management information system, which allows them to verify transactions in *real-time* to ensure that every stage of the contract, especially the transfer of ownership, runs in accordance with the sharia corridor.

Islamic bank management is obliged to strengthen the internal governance structure by empowering the Sharia Compliance Unit through the implementation of independent audits of the procurement process. In addition, banks need to limit customer discretion in the use of *wakalah contracts* to mitigate the risk of *moral hazard* and ensure that banks retain full control over the specifications and quality of the goods being financed.

The academic sector and market players are responsible for improving people's Islamic financial literacy so that customers are able to make informed *decisions*. Increasing consumer awareness will create market *pressure* that forces Islamic banks to improve the quality of their compliance in order to maintain customer reputation and trust in the long term.

5. Conclusion

This study concludes that the implementation of murabahah contracts in Indonesian Islamic banking faces a material gap between the normative framework as stipulated in the DSN-MUI fatwa and implementation practices in the field. This gap is particularly noticeable in three critical areas: first, the process of transferring ownership of goods that often does not meet the strict standards of fatwas; second, the use of the wakalah mechanism which often deviates from its purpose and purpose; and third, the coercive preference for murabahah which reduces the freedom of customers to choose the contract that best suits their needs.

This gap is not only a technical or procedural issue, but also has significant and long-term economic consequences. Although murabahah has contributed to the growth of Islamic banking's assets and short-term profitability, the inalignment with Islamic principles has created an erosion in customer trust and the reputation of Islamic banking, and has not significantly contributed to long-term economic growth. The practical obstacles faced in implementation including contract complexity, asymmetric information, and difficulties in asset valuation also show that the conventional murabahah model has inherent limitations that cannot be fully overcome through marginal improvements.

This study recommends the development of innovative models of murabahah, especially trade credit-based murabahah that integrates technology-based mechanisms, as a pathway to achieve better alignment between practice and fatwa while increasing economic efficiency. However, the adoption of such innovative models must be supported by regulatory reform, increased institutional capacity in Islamic banks, and increased consumer awareness of Islamic finance principles.

As a broader implication, this study underlines that the sustainability of Indonesian Islamic banking cannot be achieved through a focus solely on profitability and regulatory compliance, but must also be through a genuine commitment to sharia principles and value creation that is socially equitable. Furthermore, the prudential regulatory system needs to undergo reforms to accommodate the sharia compliance dimension as an integral part of the risk management framework.

The limitations of this study include: first, this study uses a systematic literature review without primary data collection, so that the findings primarily rely on the interpretation of existing documents; second, the geographical scope of the literature is disproportionately heavily analyzed on publications from academic institutions in Java and Sumatra, while literature from eastern regions may be underrepresented; Third, the analysis period focuses on 2015-2024 so that it may lose the historical context of the previous relevant period.

Future research should integrate primary data collection through surveys and in-depth interviews with bank officers, Sharia scholars, and customer representatives to gain a richer understanding of the perceptions and motivations that underlie the gaps between fatwa and practice. In addition, comparative studies between various jurisdictions in Southeast Asia (Malaysia, Thailand, UAE) can provide *additional insights into contextual factors* that affect sharia compliance.

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