FUNDAMENTALS OF THE ISLAMIC FINANCIAL SYSTEM

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ABSTRAK

Abstrak: Suatu sistem perekonomian memuat dua sektor yaitu sektor riil dan sektor keuangan. Dalam perkembangannya, sektor keuangan dalam perekonomian syariah berkembang lebih cepat dibandingkan dengan sektor riil. Dalam beberapa tahun terakhir, keuangan syariah telah berkembang pesat dan kini telah menjadi industri yang memiliki kontribusi penting terhadap perekonomian nasional tidak hanya di negara-negara Muslim. Dinamika perkembangan keuangan syariah dalam yang sangat cepat menimbulkan berbagai tantangan dihadapi sistem keuangan syariah, seperti pada aspek teoritis, operasional, dan implementasi (praktis). Oleh karena itu tujuan penelitian ini ingin mengkaji dasar-dasar sistem keuangan syariah, baik dari sisi teoritis maupun praktis. Metode penelitian ini menggunakan studi dokumentasi dari beberapa buku dan artikel/jurnal yang relevan. Hasil penelitian menunjukan bahwa pada aspek teoritis memerlukan pengembangan prinsip, filosofi dan fungsi sistem keuangan berdasarkan bagi hasil. Sistem keuangan Islam melarang praktik bunga (riba), melarang perilaku gharar (ketidakpastian) dan spekulatif (Maysir) dalam bertransaksi. Sedangkan pada aspek praktis prinsip dasar dalam sistem keuangan syariah adalah pembagian risiko dan keuntungan (profit and loss sharing) bagi pihak-pihak yang melakukan transaksi keuangan

Kata Kunci: *Sistem Keuangan; Keuangan Islam.*

Abstract: *An economic system contains two sectors, namely the real sector and the financial sector. In its development, the financial sector in the sharia economy is developing faster than the real sector. In recent years, Islamic finance has developed rapidly and has now become an industry that has an important contribution to the national economy not only in Muslim countries. The very rapid dynamics of the development of sharia finance gives rise to various challenges facing the sharia financial system, such as in theoretical, operational and implementation (practical) aspects. Therefore, the aim of this research is to examine the basics of the Islamic financial system, both from a theoretical and practical perspective. This research method uses documentation studies from several relevant books and articles/journals. The research results show that the theoretical aspect requires the development of principles, philosophy and functions of a financial system based on profit sharing. The Islamic financial system prohibits the practice of interest (riba), prohibits gharar (uncertainty) and speculative (Maysir) behavior in transactions. Meanwhile, in the practical aspect, the basic principle in the sharia financial system is the sharing of risks and profits (profit and loss sharing) for parties carrying out financial transactions.*

Keywords: *Financial System ; Islamic Finance.*

A. INTRODUCTION

Islamic economics, as the parent of Islamic finance, is called Tauhid Economics or divine economics. The reflection of the "divine" character of Islamic economics is not in the aspect of the economic actors - because the actors must be human - but in the aspects of the rules or systems that must be guided by economic actors. This is based on the belief that all economic factors including human beings basically belong to Allah, and to Him (to His rules) all affairs are returned. A country's financial system is basically very much influenced by the economic system adopted. The economic system refers to a unified decision-making mechanism and institution that implements these decisions regarding production, consumption and income distribution. Therefore, the economic system is something that is important for a country's economy. The economic system is formed due to various complex factors, for example ideology and belief systems, outlook on life, geographical environment, politics, socio-culture, etc. (Nur Kholis, 2017).

The global financial system is dominated by an interest-based economic system. Within the domestic scope of each country, the financial system focuses on economic policy towards balance using interest instruments, so that interest becomes a vital variable in the preparation of economic policy, both monetary and fiscal. On a global scale, the interest-based economy creates a distinctive style of financial interaction. Based on a critical analysis perspective, interest makes the global financial system unstable, where poor and developing countries must continue to be financially dependent on developed countries. The pre-determined nature of interest returns will make the behavior of capital holders tend to use their money as a tool to generate income through the financial sector rather than gain profits through productive activities in the real sector. This trend at the country level further deepens the damage to global finance. Developed countries are victims of debt addiction, while poor and developing countries can never be free from debt bondage which continues to balloon (Nur Chamid, 2013).

An economic system contains 2 sectors, namely the real sector and the financial sector. In its development, the financial sector in the Islamic economy developed faster than the real sector. In fact, in the last forty years, Islamic finance has grown rapidly and has now become an industry that has an important contribution to the national economy not only in Muslim countries, but also in various countries throughout the world. Islamic finance has made significant inroads in the global environment by facilitating risk diversification and contributing to global financial stability. Now Islamic finance has become an integral part of the international financial system. In several countries, including Indonesia, Malaysia and others, the economic system adheres to a dual economic system, the financial system is also a dual financial system (Nur Kholis, 2017).

In recent times, the development of Islamic finance has shown the dynamics of rapid dramatic change. As part of an instrument for developing economic activity, various challenges are faced by the Islamic financial system, such as in theoretical, operational and implementation aspects. In the theoretical aspect, it requires the development of principles, philosophy and functions of the financial system on the basis of profit and loss sharing. On the operational side, attention is needed to innovation, intermediation, discipline and risk control. The implementation side requires system applications that must be adapted to regulations and the current economic conditions of society. In fact, Islamic banking operations on an efficient system scale have so far been greatly limited by distortions in the economy, such as the lack of a strong supervisory framework and careful regulation (Iqbal. Z & Abbas Mirakhor. A, 2008). This can have an impact on financial imbalances in fiscal and monetary terms, and does not provide efficient development of Islamic banking so that financial disequilibrium occurs.

B. LITERATURE REVIEW

Research conducted by Dahrul explains that sharia financial institutions, which are the answer to several problems within the scope of Islam, have provided fresh air for the growth of a more established and sharia-compliant society. Several basic principles are in place to guide good implementation. Several contracts such as murabahah, mudharabah and qard are able to provide alternative choices for Muslim and even non-Muslim communities because they provide real solutions for muamalah activities. (Muftadin, D. 2018). Then, in order to avoid the occurrence of disputes and disputes in agreed contracts, it is mandatory to know the legal basis of contracts/agreements or agreements in Sharia Banking so as to create contracts that can accommodate all the interests of customers and Islamic banks. (Rachman, A. 2022).

The characteristics of Islamic finance are divine values, basic values of ownership (almilkiyah), balance, basic values of brotherhood and togetherness, basic values of freedom and basic values of justice. The instruments of the Islamic financial system are zakat, prohibition of usury, economic cooperation, social security, prohibition of dirty business practices and the role of the state in the economic system (Arafah, M. 2019). Then Fauzi Arif in his research explained that sharia finance, in this case sharia financial institutions (syariah banks) must remain guided by sharia values in running their business. This principle is guided by the Koran and Hadith. The principles applied to sharia financial institutions include the prohibition of interest and prohibition of usury, business and trade activities based on fairness and halal profits, issuing zakat, not running monopolies, and working together in developing society, through business and trade activities that are not prohibited in Islam. (Lubis, F. A. 2018).

C. METHOD

This type of research uses a descriptive qualitative approach. Descriptive research is not intended to test a particular hypothesis, but only describes "what is" about a variable, symptom, or situation. Moleong defines qualitative research as research that intends to understand phenomena about what is experienced by research subjects, for example behavior, perception, motivation, action, etc. holistically and by describing in the form of words or language well in a specific context naturally and utilizing various natural methods (Lexy J. Moleong, 2017). The data collection method used in social research is to explore historical data. The literature review used in this research is used by searching for previous literature related to the theme that will be presented through books and articles/journals which are then collaborated with the author's thoughts to find a form of conceptual understanding that can provide information for the wider community in general and for writers in particular about the themes discussed.

D. RESULT & DISCUSSION

1. Islamic Financial System

Basically, a country's financial system is greatly influenced by the economic system adopted. Gabriella Gimigliano, 2014) The economic system refers to a single decision-making mechanism and institution that implements these decisions regarding production, consumption and income distribution (Paul R Gregory and Robert C Stuart, 1999: 16). Therefore, the economic system is something that is important for the economy of a country. The economic system is formed due to various complex factors, for example ideology and belief systems, views on life, geographic environment, politics, socio-culture, etc.

Finance plays an important role not only in the allocation and distribution of scarce resources, but also in economic stability and growth. Because the sources of financial institutions come from deposits placed by a representative part of the entire population, it is quite rational that they are also considered national sources. Everything must be used for the welfare of society. However, because financial resources are very scarce, they need to be used with optimal fairness and efficiency (M Umer Chapra, 1999).

The financial system is the economic structure in a country which plays a role in carrying out financial service activities organized by financial institutions. The main task of the financial system is to act as a mediator between fund owners and users of funds used to purchase goods or services and investments. Therefore, the role of the financial system is very vital in encouraging economic growth, as well as being able to predict future economic developments (Andri Soemitra, 2010). A regulation that explains the sources of financial funds for the state in the process of allocating these funds for community life (Said Sa'ad Marthon, 2004). The main role of the financial system is to encourage the efficient allocation of financial resources and real resources for various goals and targets (Zamir Iqbal and Abbas Mirakhor, 2008).

Meanwhile, Islamic finance is a system that originates from the Koran and Sunnah, as well as from the ulama's interpretation of these revealed sources. In its various forms, the Islamic financial structure has been a civilization that has remained unchanged for fourteen centuries. Over the past three decades, Islamic financial structures have emerged as one of the most important and successful modern implementations of the Islamic legal system, and as a test case for future reform and development of Islamic law. According to Qutb Ibrahim, (2007) the characteristics of the Islamic financial system are as follows:

a. Public assets in the Islamic State's financial system are Allah's assets.
b. Rasul was the first person to practice Islamic finance.
c. The Qur'an and sunnah are fundamental sources for Islamic finance.

d. The Islamic financial system is a universal financial system.
e. Special finance in Islam supports the financial system of the Islamic State.
f. The Islamic financial system adopts the principle of allocation of services as a source of state income.
g. The Islamic financial system is characterized by transparency.
h. The Islamic State's financial system is a movement of goodness
i. The Islamic financial system is the capital of Muslim tolerance.

2. Principles of the financial system in Islam

The definition of an Islamic financial system is a financial system that bridges between parties who need funds and parties who have excess funds through financial products and services that are in accordance with Islamic principles, namely (Qutb Ibrahim, 2007):

a. Freedom of transaction
Based on the principle of mutual consent and no one will be wronged, based on a valid contract. And transactions may not involve haram products. The principle of mutual consent for carrying out business or commercial activities is very important. There is no element of coercion in this case which could cause respective losses.
b. Free from maghrib (maysir)
The absence of gambling or speculative elements which serves to reduce conflict in the financial system, gharar, namely fraud or lack of clarity, usury taking additional money by false means).
c. Free from efforts to control, engineer and manipulate prices.
Everyone has the right to receive balanced, adequate and accurate information so that they are free from unknown transactions.
d. Consider the other party
Transaction parties must consider other parties' interests which may be disturbed, therefore third parties are given rights or choices.

The principles of sharia law are different from conventional finance. This difference can be used as a basis for financial practices that should be in accordance with sharia (Alam, 2011):

a. Prohibition of interest (riba): In conventional forms of finance, receipts are made through interest (riba) whereas in Islamic law the practice of usury is not permitted.
b. Prohibition of uncertainty: Uncertainty in contracts is not permitted because it can lead to speculative action involving gharar (excessive uncertainty).
c. Risk of profit and loss sharing: Parties involved in financial transactions must share risks and profits between lenders and borrowers.
d. Investment ethics: Investments in industries prohibited in the Koran such as alcohol, gambling and pork are not recommended.
e. Real assets: Every transaction must be real and identifiable. Debt cannot be sold so the associated risks cannot be transferred to others

3. Causes of the Birth of Islamic Finance

The cause of the birth of Islamic finance, there are 3 elements, namely (Nur

Kholis, 2017):
ideological religious, pragmatic empiricist, and idealist academic.

a. Religious ideology is a fundamental background related to Islamic teachings, namely: firstly, the desire of Muslims to apply Islamic financial concepts as an effort to make Islam a way of life. Both existing conventional financial concepts and practices violate various sharia principles, for example containing elements of usury, gharar, maysir.
b. Pragmatic Empirical
   Muslim countries aspire to become economically independent after the period of independence from Western colonialism (around the 1940s). The existing conventional financial system is seen as more profitable for the West and detrimental to Muslim countries which are generally classified as developing countries. At the same time, there are a large number of funds belonging to Muslims, especially oil producing countries, which want to be managed Islamically. This desire manifested itself in the form of, among other things, the establishment of the IDB (Islamic Development Bank). IDB was founded in Jeddah as a result of an agreement between OIC ministers in December 1973, and began operating in 1975. IDB is not a commercial bank, but a development bank (like the World Bank) which has a mission to empower the development of Muslim countries.
c. idealistic academic,
   It was found from various academic studies conducted that the conventional financial system has the potential to: firstly cause instability and economic crises, secondly widen the gap between poor and rich, thirdly there are alternative financial systems that are conceptually better able to create a fairer and more harmonious financial system.

4. Objectives of the Islamic Financial System

The main objectives of the Islamic financial system can be explained by experts as follows:

a. Remove interest from all financial transactions and carry out activities in accordance with Islamic principles, fair and equitable distribution of wealth, progress in economic development (Mervyn K. Lewis and Latifa M. Algoud, 2007).
b. Providing halal financial services to the Muslim community, in addition, it is also hoped that it will be able to make an appropriate contribution to achieving Islamic socio-economic goals. The main targets are economic prosperity, expansion of employment opportunities, high levels of economic growth, socio-economic justice and income distribution, reasonable wealth, stability of the value of money, and mobilization and investment of savings for economic development that is able to provide guaranteed profits (profit sharing) to all parties involved (M. Umer Chapra, 2000).
c. It is hoped that it will be able to become the best alternative in achieving community welfare. The elimination of the interest principle in the Islamic financial system has quite a significant macro impact, because not only the principle of direct investment must be free from interest, but the principle of

indirect investment must also be free from interest. Banking as the main financial institution in this financial system not only plays a role as a financial intermediary institution, but also as a financial service provider industry and the main monetary policy instrument (Heri Sudarsono, 2003).

5. Characteristics of the Islamic Financial System

The characteristics of the Islamic financial system can be explained as follows:

a. Divine Values

Islamic economics is an economy characterized by divinity. This system has its starting point from Allah, its final aim is towards Allah. The use of means and facilities from Allah is carried out through the laws and shari'ah of Allah SWT. When a Muslim uses or enjoys something in this world, he has directly worshiped Allah, and it is an obligation for him to be grateful for all the blessings He has given him. Based on this philosophical value, in sharia economics a norm has emerged called the al-istikhlâf norm. The existence of this istikhlâf norm further strengthens the divine norm in sharia economics. Because, a Muslim is obliged to believe that he is a creature of Allah, he works on Allah's earth, with power from Allah, and through means and infrastructure from Allah. A Muslim works according to the law of causality. If he obtains property, then in essence it is God's property entrusted to him. It is Allah who created the treasure, and He is the true owner. Meanwhile, humans are only guardians of the trust that has been given to them (Yusuf Qaradawi, 1997).

b. Basic Ownership Values (al-milkiyah).

The concept of ownership in Islam is not the same as the concept of ownership in liberalism as proposed by John Locke. According to John Locke, every human being is the complete master and ruler of his personality, his body and the labor that comes from his body. This means that a person's ownership is absolute. Therefore, what and how he uses these assets absolutely depends on his will. This was not approved by Karl Marx. Marx argued that something like this was very dangerous because it would lead to a life that was exploitative and full of conflict (Anwar Abbas, 2004). In contrast to the two views mentioned above, Islam recognizes individual ownership. Apart from that, Islam also recognizes ownership by society and by the state. However, ownership is not absolute, but relative. This means that the ownership of a person or community or country is not entirely their property and is the result of their efforts. However, all of this is a mandate and entrustment from Allah SWT. Therefore, a person should not squander his wealth, or even deify his wealth. If so, it means that the property will lose its social function and useful value (Anwar Abbas, 2004). So in Islamic teachings, human ownership is not absolute control over economic resources, because the absolute owner is Allah, humans are only given the mandate and ability to utilize the mandated resources.

c. Balance (al-Muwâzanah).

The capitalist economic system prioritizes individuals over society. In this system a person feels their self-worth and existence. People are given the opportunity to develop all their potential and personality. However, in the end a person is affected by egoistic, materialistic, pragmatic and greedy to have everything, and his life orientation is a profit motive. In Islamic teachings, the issue of balance receives special emphasis and attention. There is not only a balance between one's interests and common interests, between the interests of this world and the hereafter, between physical and spiritual interests, between idealism and reality. However, there is also a balance between capital and activity, between production and consumption, as well as the circulation of wealth (Yusuf Qaradawi, 1995). Therefore, Islam prevents and prohibits the accumulation and concentration of wealth in only a few people. (QS. 59 (al-Hasyr): 7)....so that wealth does not only circulate among the rich among you... (QS. 59 (al-Hasyr): 7). If there is a sharp disparity in ownership between individuals, related to fulfilling their needs, it means that tyrannical practices have occurred. To anticipate this, Islam has offered solutions through the instruments of zakat, infaq and sadaqah which can touch and at the same time alleviate poverty. Balance is a basic value that influences various aspects of a Muslim's behavior. This basic value of balance must be maintained as well as possible, not only between the interests of the world and the interests of the hereafter in the economy, but also the balance between rights and obligations between the interests of individuals, society and so on.

d. Basic Values of Brotherhood and Togetherness (al-Ukhuwwâh wa al-Isytirâkiyyah wa al-jamâ'ah).
   In socialism and communism, brotherhood and togetherness are the main and first values. For this reason, so that these values are not damaged and disturbed, individual ownership which is the cause of disputes and disputes must be abolished and replaced by the state. It is the state that regulates production, consumption and distribution in society. In the understanding of capitalism, this is not too much of a concern. For them, fraternity can occur automatically without the intention of the economic actors themselves, because the glue of fraternity, according to this understanding, is interest. The two understandings above are different from Islamic teachings. In Islam, togetherness is an indicator of a Muslim's faith. The values of brotherhood are a logical consequence of the appointment of humans as caliph fi al-ard, because this appointment is not only aimed at certain people. However, it is addressed to every servant of His who believes. Therefore, differences in race, ethnicity and language are not differentiating variables in the eyes of Allah SWT (Yusuf Qaradawi, 1995).
e. Basic Values of Freedom (al-Istiqlâliyyah). In the capitalist economic system, every individual is given the widest possible freedom to use or not use the assets they own. Also to enter or not enter the market, either as a producer, distributor or consumer. Or in other words, no one can overcome an individual's freedom except himself. This cannot be accepted by socialist-communist ideology. They saw that such freedom would lead to anarchy. Therefore, this freedom must be subordinated to the common interest (K. Bertans, 2002).
f. Basic Value of Justice (al-'adâlah).
   Justice is giving every right to its respective owners without exaggerating or reducing (Yusuf Qaradawi, 1995). The problem now is who is competent to determine justice? In socialism and communism systems, it is the authority of the state that determines justice, while in competent capitalism systems it is

individual authority. Meanwhile, according to Islamic perception, justice is the authority and authority of Allah SWT. In socialist and communism societies, which make togetherness and equality the main values, the need factor is used as the basis for determining whether something is fair or not. According to this understanding, a society can only be said to be fair if all the needs of its citizens have been met, especially the needs for clothing, food and shelter. On the other hand, if not, then there has been a practice of injustice (K. Bertans, 2002). Economically, justice must be upheld in two domains at once: Justice in general (Adl'am) means the realization of a just political and economic system and structure. This realm is the responsibility of the authorities and government. Justice specifically (Adl khas) means the implementation of justice in the lives of muamalah between Muslims and fellow humans. Typical adl covers broad areas such as the prohibition of violating other people's rights. Islam does not want economic inequality between one person and another. Therefore, one of the important features of the Islamic economic system is the regulation of people's behavior and government which includes two material and spiritual dimensions at once. Because in Islam, the main goal is to lead humans to spiritual and spiritual perfection. Therefore, in the Islamic economic system the mechanism implemented is to support the realization of that goal. The two dimensions of material and spiritual are clearly visible in Islamic teachings which prohibit monopoly, hoarding wealth (al-Ihtikar) and the order to issue zakat and alms (M. Roem Syibly, 2015).

6. Islamic financial system instruments

Each economic system has its own instrumental value. The instrumental values of the capitalist economic system are: perfect competition, freedom to enter and exit the market without restrictions, as well as atomistic, monopolistic information and market forms. Meanwhile, the instrumental values of the Marxist economic system include: the existence of central and mechanistic economic planning, as well as collective ownership of the factors of production by the proletariat. In the sharia economic system, strategic instrumental values that influence a Muslim's economic behavior are (Arafah. M, 2019):

a. Zakat.
   Zakat is one of the pillars of Islam which is a religious obligation imposed on a person's assets according to certain rules in the sharia economic system (M. Daud Ali, 1998). Zakat is a source of state income. Apart from taxes, al-fay, ghanîmah and must be distributed to those who are entitled to receive them.
b. Prohibition of usury.
   Literally, the meaning of riba is to increase or expand. Meanwhile, according to the term, usury is an addition to debt payments as compensation for the period of time used while the debt has not been paid (M. Daud Ali, 1998). Therefore, the circulation of money that contains usury is not justified.
c. Economic cooperation.
   Cooperation is the character of economic society according to Islamic teachings. Cooperation must be reflected at all levels of economic activity, production, distribution of both goods and services. These forms of cooperation include

muzâra'ah and musâqah in the agricultural sector, mudhârabah and musyârakah in trade. The principle of cooperation is upheld by Islamic teachings because this cooperation will achieve (M. Daud Ali, 1998): a). Creating productive work in people's daily lives. b). Improving welfare and preventing community misery. c). Prevent economic oppression and unequal distribution of wealth. d). Protecting the interests of economically weak groups.

d. Social Security.
   In the Koran you can find many teachings that guarantee a minimum level and quality of life for all society.
e. Prohibition of dirty business practices.
   There are several business practices that are prohibited in Islam, such as the prohibition against hoarding, takhfîf (cheating in the scales), dishonesty, not appreciating achievements, protectionism, monopoly, speculation, coercion and others. This is prohibited because if tolerated it will damage the market so that the naturalness of the market becomes damaged and disrupted.
f. The Role of the State.
   To uphold the goals and values of the sharia economic system above, the power or role of the state is required, especially in legal aspects, planning and monitoring the allocation or distribution of resources and funds, equal distribution of income and wealth as well as economic growth and stability.

7. The most fundamental function of the Islamic financial system

The most fundamental functions of the Islamic financial system are (Agustianto, 2002):

a. Comprehensive economic prosperity based on full employment and optimum economic growth rates.
b. Socio-economic justice with equal distribution of income and welfare.
c. Stability in the value of money allows the medium of change to be used as a unit of calculation, a fair benchmark for deferring payments and a stable exchange rate.
d. Mobility and investment of savings for economic development with a guarantee of fair and prospective returns.
e. Effective billing of all banking services and products.

To have a more significant impact on the economy, the Islamic financial system needs to have a more significant portion of total financial assets, namely at least 20 percent. Therefore, governments, central banks and economic agents who care about the Islamic financial system need to work harder. Related to this, there are at least five steps to accelerate the development of the sharia financial system, both nationally and internationally (Arafah. M, 2019) :

a. First, there is a need to strengthen the regulatory and supervisory system for Islamic financial institutions. The growth rate of Islamic finance varies greatly in various countries. This level of development has a positive correlation with the level of regulation and supervision. Poor financial systems in various countries are sometimes caused by inadequate existing regulations and supervision, so collaboration is needed to fill existing regulatory gaps.
b. Second, the need for international coordination and cooperation. By its nature,

the Islamic financial system is more resistant and more stable from financial shocks. However, in reality, it must be realized that the operations of the Islamic financial system are not isolated from the conventional financial system. In such situations, international cooperation and coordination is needed. Currently, there are several international institutions, such as the International Financial Services Board (IFSB) in Malaysia, International Islamic Financial Markets (IIFM), and the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI) in Bahrain. The role of these institutions should be strengthened and improved.

c. Third, the need for collaboration at the level of supervision of the Islamic financial system across countries. Currently, it has been seen that many Islamic financial institutions operate globally, but lack collaboration in cross-border supervision. Almost all collaborations in the Islamic financial system focus on regulatory standards and liquidity management.
d. Fourth, the need for an Islamic financial system business model, especially in sharia banking, by placing emphasis on business in the real sector rather than the financial market. In addition to further promoting sustainable growth. This model is better able to withstand the pressure of the financial crisis. The development of Islamic economic finance in Indonesia to date is still in line with the business model. This is due to the development of Islamic financial system products which are driven by the market in meeting demand in the real sector. However, this strategy does not mean forgetting efforts to develop Islamic financial products in Indonesia, which are still somewhat lagging behind. Fifth, there is a need to determine a reference rate of return based on true Islamic principles. The principle of sharing profits and losses is the spirit of creating an Islamic financial system. However, until now, Islamic financial institutions seem to tend to refer to the rate of return of the conventional banking system, namely interest rates. Behavior like this carries risks to the reputation of Islamic financial institutions themselves.

E. CONCLUSION

The Islamic financial system is a system that originates from the Koran and Sunnah, as well as from the interpretations of scholars regarding these revealed sources.The Islamic financial system prohibits the practice of interest (riba), prohibits gharar (uncertainty) and speculative (Maysir) behavior in transactions. Meanwhile, the basic principles in the Islamic financial system are:sharing risks and profits (profit and loss sharing) for parties carrying out financial transactions. The characteristics of Islamic finance are divine values, basic values of ownership (al-milkiyah), balance, basic values of brotherhood and togetherness, basic values of freedom and basic values of justice. The instruments of the Islamic financial system are zakat, prohibition of usury, economic cooperation, social security, prohibition of dirty business practices and the role of the state in the economic system.

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