

Analysis of Ijarah Contract Service Innovations in Sharia Banking Transactions

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Abstract. Innovation is one of the efforts to improve performance in Islamic banking. The purpose of innovation is not only to reduce costs, but is a reason for improving the quality of products and services. This research aims to find out the development and management of product and service innovation in Islamic banking transactions. This research uses qualitative methods, where qualitative methods are a method that uses observation or interview. The findings in this study show that the innovation of services in transactions using Bittamluk's muntahiya ijarah aims to develop accommodating market needs and consumer needs. Because this transaction is a development of the ijarah transaction, the provisions also follow the provisions of Ijarah.

Keywords: Ijarah; Sharia banking; Collaborative Service

1 Introduction

Ijarah is a contract for the transfer of usufructuary rights over goods or services, through payment of rental wages without being followed by a transfer of ownership of the goods themselves. The involvement of academics is always active and creative to respond to the development and growth of economic activities and financial institutions, both conventional and sharia-based in Indonesia. The products and services used are expected not to deviate from sharia principles so that practitioners are required to create various products and regulations that regulate and supervise the products or services offered (Rofiq & Hasbi, 2021).

In Islamic banking services, bankers apply Islamic Financing Models (IFM) such as Syirkah, Ba'i, Ijarah, and Wakalah as a plan of action. This plan aims to create mutual benefits such as generating profits for the bank and customers. IFM defines different parties as service creators and their collaborative roles by creating services. IFM prioritizes sharia compliance in contracts or economic transactions that occur in the service process. For example, to avoid interest which is prohibited in Sharia, the designers of these services replaced conventional loan contracts with IFM to create services (Nawawi & Hasbi, 2021).

The rules of agreement in sharia principles are based on Islamic law between banks and other parties to save funds and or finance business activities, or other activities according to

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sharia, such as financing based on the principle of profit-sharing, equity participation, the principle of buying and selling goods for gain profit, pure lease without choice, transfer of ownership of goods rented from the bank by another party (Iswanaji et al., 2021)

Islamic banking must pay attention to three aspects, including compliance with Islamic principles, compliance with applicable regulations, and product development. In sharia financing, the most important aspect of sharia and must be fulfilled is the contract. Contract means a decision, reinforcement, agreement, or transaction or can be interpreted as a commitment that is framed with sharia values. The transaction will be considered halal if the contract is following sharia, but if there is no contract according to sharia then the transaction is considered invalid (Hasbi, 2019).

The designers make changes in the contract, but compliance with the Shari'a rarely reflects the actual service actions that emerge as a consequence of the contract which is called the substance of the implemented IFM.⁷ This non-compliance with Shariah occurs mainly because the product development department at the Bank fails to fully visualize the service. collaborative and cannot be determined precisely in advance and can only be conceptualized holistically in the collaboration of organizations, customers, and helping parties in the future (Çamlıbel, 2014) In the service creation process, each party assumes one or more roles to take action, which is a holistic service.⁸ However, these arguments relate to the collaboration of new dual service creators for Islamic banking services. There is little evidence to suggest that Islamic banking services are co-created by multiple service makers through collaboration, as IFM provides little knowledge related to this aspect of banking practice (Bawono, 2013).

The perspective of these service makers can clarify the roles of various participants in the Islamic financial system and turn, these roles can be better designed, implemented, and monitored on critical management issues such as time delays, documentation costs, and regulating sharia compliance of services. If a product design is based on the premise that it will be collaboratively produced in the future, participants may be more aware of their respective roles and comply with relevant regulations. This will increase the effectiveness of all management compared to the current approach of holding one institution accountable for all roles (Chapra, 1992).

2 Literature Review

2.1 Ijarah

Al Ijarah comes from the word al ajru which means al 'Awadhi. Ijarah is a contract for the transfer of usufructuary rights over goods and services, through payment of rental wages, without being followed by the transfer of ownership of the goods themselves. Ijarah in the context of sharia banking is a lease contract in which a bank or financial institution leases equipment. To one of its customers based on the imposition of a predetermined fee with certainty (Muhammad, 2019).

The forms of transactions in Ijarah in Islamic banking are as follows:

1. Ijarah transactions are characterized by the transfer of benefits. So basically the principle of ijarah is the same as the principle of buying and selling, but the difference lies in the object of the transaction is goods, then in ijarah, the object of the transaction is services.
2. At the end of the lease period, the bank may sell the leased goods to the customer, because in Islamic banking it is known as lease followed by transfer of ownership.
3. The rental price and selling price are agreed upon at the beginning of the agreement between the bank and the customer (Ascarya, 2017).

2.2 Ijarah Terms

- 1) The services or benefits to be provided by the leased asset must be certain and known by both parties.
- 2) Ownership of fixed assets belongs to the lessee who is responsible for its maintenance, so the asset must be able to provide benefits to the lessee.
- 3) The ijarah contract is terminated when the asset in question ceases.
- 4) Provide benefits to tenants. If the asset is damaged within the contract period, the ijarah contract is still valid (Iswanaji et al., 2021).

The pillars and conditions of ijarah that must be fulfilled in the transaction to fulfill the provisions of Islamic law are as follows:

- a. Contractors, namely tenant, is the party who leases the asset owner is the owner who leases the asset
- b. The object of the contract namely rented assets and rental price.
- c. Sight, namely consent, and acceptance (Hasbi et al., 2021).

2.3 The Legal Basis of Ijarah

QS. Al-Baqarah (2):233

وَالْوَالِدَاتُ يُرْضِعْنَ أَوْلَادَهُنَّ حَوْلَيْنِ كَامِلَيْنِ لِمَنْ أَرَادَ أَنْ يُبْرِئَ الرِّضَاعَةَ وَعَلَى الْمَوْلُودِ لَهُ رِزْقُهُنَّ وَكِسْوَتُهُنَّ بِالْمَعْرُوفِ لَا تُكَلَّفُ نَفْسٌ إِلَّا وُسْعَهَا لَا تُضَارَّ وُلْدُهُ بِوَالِدَيْهَا وَلَا مَوْلُودٌ لَهُ بِوَالِدَيْهِ وَعَلَى الْوَارِثِ مِثْلُ ذَلِكَ فَإِنْ أَرَادَا فِصَالًا عَنْ تَرَاضٍ مِنْهُمَا وَتَشَاوُرٍ فَلَا جُنَاحَ عَلَيْهِمَا وَإِنْ أَرَدْتُمْ أَنْ تَسْتَرْضِعُوا أَوْلَادَكُمْ فَلَا جُنَاحَ عَلَيْكُمْ إِذَا سَلَّمْتُمْ مَا آتَيْتُم بِالْمَعْرُوفِ وَاتَّقُوا اللَّهَ وَاعْلَمُوا أَنَّ اللَّهَ بِمَا تَعْمَلُونَ بَصِيرٌ

Meaning: Mothers may breastfeed their children two complete years for whoever wishes to complete the nursing [period]. Upon the father are the mothers' provision and their clothing according to what is acceptable. No person is charged with more than his capacity. No mother should be harmed through her child and no father through his child. And upon the [father's] heir is [a duty] like that [of the father]. And if they both desire to wean through mutual consent from both of them and consultation, there is no blame upon either of them. And if you wish to have your children nursed by a substitute, there is no blame upon you as long as you give payment according to what is acceptable. And fear Allah and know that Allah is Seeing what you do. (Surat al-Baqarah (2):233)

The verse above does not contain the history of but the understanding of this verse can be traced based on the consideration. Traditions and rules governing breastfeeding rights and wages existed at the time of the Prophet Muhammad. This verse is the basis that breast milk and the owner of the womb of the child who is born are the owners, otherwise, he has no right and is not allowed to take breastfeeding wages (Fitrian, 2020).

The series of paragraphs before and after it contains family law regarding rights and obligations in marriage, divorce, child care, and its consequences as well as the time limit for breastfeeding a child. The verse also allows the trading of milk and urges them to provide a decent wage that has been agreed upon by the local community. The verse reminds us that no one is harmed and their life is threatened in carrying out social and economic relations (Zidny, 2021).

The procedure for leasing based on Islamic law or called ijarah, in its meaning and context in banking is the transfer of the right to use an item with payment of a rental fee without

being followed by a transfer of ownership of the item, in short *ijarah* means renting without the intention of owning it. *Ijarah* contracts have shortcomings that can cause Islamic banks not to implement these contracts, among others, the *ijarah* contracts do not contribute to the world of Islamic banking, have a fairly long contract mechanism that makes the company feel quite difficult if implementing the *ijarah* contract, and can cause losses to the bank if it is implemented. customers do financing in the middle of the contract, and rental costs can change at any time during price fluctuations (El-Gamal, 2008).

Thus, the existence of these shortcomings requires collaborative services which include customers, service organizations, and system assistance to create financial contracts that are more efficient and follow Islamic law (Khotimah, 2017).

2.4 Collaboration Services

In the contemporary service literature, this view is incomplete because the services and value generated through collaboration are created by several parties including the customer, the service organization, and the support system. In this sense, Islamic bankers and customers collaborate and work together to create Islamic banking services because they both contribute and the result of their resources is the creation of a service product. Credit card services, for example, emerged as a series of collaborative actions and resource outcomes of various entities such as banks, customers, visa systems, and interbank ATM networks. In conventional finance, it is common to add specialized services to the bank's main services such as the integration and packaging of various services.

The core of the service maker is the dual service system and their integration and collaboration of resources and actions, which enables a holistic service.¹⁸ In Islamic banking services, various systems also integrate resources to work together to create Islamic banking services. IFM is based on partnerships, sales, leases, and at least partially defines the roles of different Islamic banking service makers. There is a need for a more in-depth analysis of the current IFM and its application to find out more detailed collaboration roles that may exist in the practice of Islamic banking services that are not explained in theory. The next section provides a discussion of IFM from the perspective of the extent to which these models recognize the collaborative role of multiple entities in the creation of Islamic banking services (Sampson, 2012).

2.5 Islamic Finance Models (IFM)

The model is a representation of real practice. In this sense, partnerships, sales, lease contracts, and other contracts are models that represent real service practices created through different applications in different contexts. There are various types of IFM applied by Islamic banks to create services. The first category is the participatory model. The participatory model considers Islamic banks and customers as partners in generating economic benefits through Sharia-compliant mechanisms.¹⁹ Islamic banks use a partnership model with various variations to meet their contextual needs. For example, *Musarakah* is used as a joint venture where all partners share the profits and losses of a business (Fahmi, 2015).

However, the dominant form of partnership is diminishing *Musarakah* in which the ownership share of at least one cooperating partner gradually decreases to zero. Another form of partnership, which is mostly used to create deposit services is *Mudabah*, where one partner, the depositor invests money, while the bank provides the action and thus creates mutual economic value (Hidayat, 2014).

Islamic banks also create sales service models such as working capital financing. for example in cost plus sales, banks, customers, and vendors integrate their actions and resources to create each other's services, as they build on each other's actions and resources.

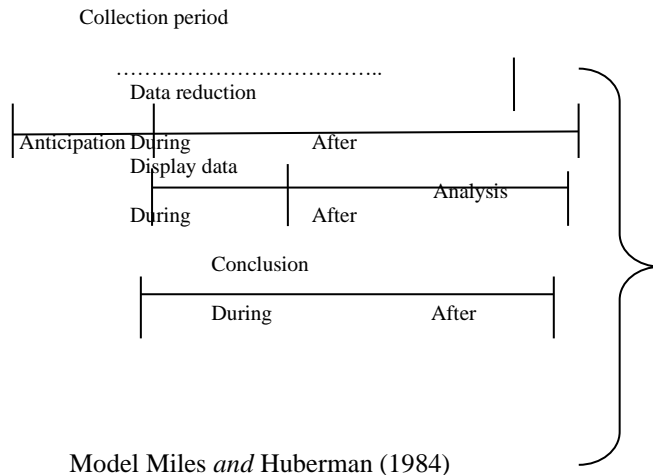
Other sales models such as Salam and Istisna create a service structure in which collaboration between banks and customers varies and thus allows them to evolve into distinct services. for example, in construction or heavy machinery projects, banks use Istisna orders to manufacture models (Ullah & Al-Karaghoul, 2017).

3 Method

The method used in this study is a qualitative method to understand the phenomenon of the research subject through the description. The triangulation method in this research is the triangulation of data sources. Triangulation of data sources is a method by exploring the truth of information by using various data sources, for example, the results of interviews and observations. The unit of analysis in this study is the Ijarah case (Bachri, 2010). The location of this research was carried out in the Yogyakarta area with respondents from parties related to ijarah financing. Data collection techniques used are data collection techniques with narrative interviews..

Analysis of the data in this study used the theory of the Miles and Huberman model by suggesting that the activities in qualitative data analysis were carried out interactively and continued to completion. These are the steps the writer must take to analyze the data that has been collected from all informants as something that must be passed before making a decision. After all the data needed for this study were collected, the researcher used the model analysis by Miles and Huberman (1984), arguing that the activities in qualitative data analysis were carried out interactively and continued continuously to completion.

The following is the flow of components in data analysis (flow model).



The final step is drawing conclusions and verification. Thus the conclusions in qualitative research may be able to answer the formulation of the problem formulated from the start. The conclusions in qualitative research are new findings that have never existed before. Findings can be in the form of a description or description of an object that was previously dim or still dark so that after being investigated it becomes clear, it can be in the form of a causal or interactive relationship, a hypothesis or a theory.

4 Result and Discussion

Islamic banks also use the Ijarah model to create services in which the proceeds from most tangible and durable assets are given to others in exchange for rent. In Ijarah contracts, Islamic banks provide assets to be rented out to customers, for example, banks rent cars to customers. In the practice of Ijarah, one can observe, that Islamic banks, customers, and car suppliers, come together to complete the service process. Many Islamic banking services, such as money transfers, can be made through the agency model. In this model, the bank usually functions as a customer agent. However, it can be seen that customers and other related banks as well as money recipients also take many actions that are an important part of the service where the ultimate goal of money transfer is achieved (Ibrahim, 2013).

Table 1. Service Providers in the Islamic Financial Model

No	Product	Service Maker	Role
1	Musharakah	Banks and Customers	Capital Partner
2	Mudarahah	Banks and Customers	Capital and Partners
3	Murabahah	Banks and Customers, Aiding Party	Seller, Buyer, Vendor
4	Ijarah	Banks and Customers, Aiding Party	lessor, lessee, and Vendor
5	Wakalah	Banks and Customers	Agent and Principal

Source: data processed 2021

In short, if the researcher critically evaluates the actual application of IFM to create services in different contexts, it is quite visible that in each application there are not only banks that take action and use their resources, on the contrary customers also take actions that help (serve) the bank to start. their actions. In addition, supporting parties such as vendors and other related banks also take action and use their resources to enable holistic services to achieve certain goals. In many cases, banks can be seen integrating multiple IFMs to create a single service.

This happens because in practice there are many parties in a single IFM service that does not provide sufficient structure. However, in IFM theory there is little knowledge of how this multi-stakeholder integration and collaboration occurs. The questions contained in this study seek answers to explore and conceptualize a more holistic Islamic financial service that occurs through collaboration and integration. Narrative interviews with Ijarah managers are divided into twenty-nine stages to understand the actual process of creating Ijarah services. Each interview stage includes an integrated part of the service process in which at least two roles interact to co-create part of the entire service. This stage was developed based on in-depth interviews with Ijarah managers about real cases of Ijarah at Bank Syariah Yogyakarta and several supporting documents showing the different steps of the service. A car rental contract involves an agreement between parties to provide mutual benefits.

The agreement in the contract creates rights and obligations that must be fulfilled between the lessee and the landlord. Problems that can occur in leasing activities are related to the delegation of responsibility for compensation either due to natural factors or wear and tear on the car on the rented car. The analysis in the interview was carried out by conducting interview transcripts and reaching conclusions, compacting a large amount of data into information. which can be understood. The entire service consists of several stages of interviews that lead to the achievement of the service objective. In the case of Ijarah, the target set is to rent vehicles to customers.

Identification of various roles can improve the vision of bankers and regulators to see whether each role is in an integrated form whether it is sharia-compliant or not. For example, isolated analyzes of vehicle supply, Takaful, and agency roles could be better designed if they were accepted as part of IFM. IFM currently does not provide a holistic perspective and

does not consider this collaborative role as part of its product design. This study has significant implications for IFM theory as it seeks to establish alternative service perspectives, which challenge the adequacy of IFM, in the sense that these models do not encompass the holistic co-creation services that occur in practice. The service literature and empirical evidence in IFM provide evidence for co-creation and collaboration services that create a holistic Islamic banking market.

Table 2. Interaction of Parties Involved in Ijarah Services

No	Description
1	The customer visits the bank and asks for help regarding car rental, he meets the Ijarah Manager
2	The ijarah manager analyzes the customer's needs and affordability and suggests the appropriate type of car rental.
3	The customer prepares the required documents
4	The customer sends the document and deposits the processing fee, the manager checks the document, the bank account is credited for the processing fee.
5	The ijarah manager obtains verification of the client's identity through the regional coordinator of the national identity verification authority.
6	Ijarah managers obtain customer credit information reports through the regional coordinator of the central bank.
7	The ijarah manager obtains a data inspection report from the client through the head office coordinator
8	The ijarah manager obtains verification of the submitted documents from an outside verification agency.
9	The ijarah manager prepares a case proposal and fills out an application form.
10	The hub manager reviews case proposals and creates some queries from the Manager.
11	Branch managers review proposals and case documents and create queries
12	Area managers review case proposals sent to regional coordinators.
13	Regional coordinators call customers and verify information
14	The risk assessment manager assesses case proposals, documents, and makes Quarry
15	Ijarah product managers review cases and create queries.
16	Business managers review cases and create queries.
17	The head of consumer finance reviewed and approved the case.
18	The head office coordinator sends the case file to the Ijarah Manager with
19	The Ijarah manager contacts the customer to read and sign the document.
20	The customer visits the bank, reads the approval letter,
21	sign, and send car quotations obtained from vendors.
22	The administrator section checks the case contract.
23	The operations manager opens non-checked accounts and informs IM, and notifies customers.
24	Credit administrators contact takaful companies and tracking companies to arrange takaful coverage and install trackers on cars
25	The credit administrator manager contacts the local registration agency to register the car tax
26	Operations officer prepares payment documents
27	The customer makes a security deposit at the cashier.
28	Ijarah manager collects payment documents.
29	The customer collects the payment documents from the ijarah manager.
30	The customer makes payment to the vendor and the vendor delivers the car

Source: Data processed 2021

The synthesis of service concepts such as co-creation and Shariah juridical principles can give rise to a viable solution model for how holistic Islamic banking services can be designed to effectively cover co-creation services and thus adhere to Shari'ah both in legal form and in actual substance. Such Islamic banking services will be more accepted by the parties who create joint services in the market because the market faces and takes into account all parties who contribute in the market to create each service process. This research provides a basic understanding of the development of a Shariah service model, which can complement the current IFM to holistically capture both economic transactions and service elements, which are currently prevailing in the Islamic banking market. IFS collaborative thinking extends the visualization power of product developers at Banks and regulators and through it, they can better understand emerging services not just within a single entity and not in the domain of multiple collaborating agents.

The phenomenon of co-creation services is important in the context of increasing and improving the efficiency of Islamic banking services today. As stated in this study, that Islamic banks must work closely with service designers, makers, and consumers, likely, the resulting service will also increase customer satisfaction and service quality. Because customer satisfaction is very important for the overall quality of Islamic banking services. For such quality improvement, personnel from Islamic banks, customers and supporting entities should further integrate their competencies to create artifacts and actions that can satisfy their respective needs following Shariah. The integration and application of such competencies to one another is service and it can only be enabled through confidence and trust-building steps so that integration and collaboration can continue longer and lead to sustainability of service makers as a holistic service community. The trust of participants in Islamic banking services can create social capital and can improve the efficiency of Islamic banks as a whole.²⁷ This will be a move towards a sharia-based banking community perspective from the perspective of banks and traditional customers.

5 Conclusion

Designing and developing financial contracts in the Islamic banking system is the first step towards more efficient product design. In this study, the researcher can show that how different roles contribute to the creation of Ijarah services, which not only create but also design as well as consumers of the same Islamic banking. This approach not only helps to design products from the perspective of financial and economic models, which is the norm of the Islamic finance industry today but also gives consideration to proposing Islamic finance as a collaborative service. It calls for better collaborative services according to the shariah orientation, which proposes to be more collaborative and holistic. Collaborative services in ijarah that are following sharia include fulfilling the pillars of ijarah and the requirements of the ijarah contract. In addition, a collaborative service-based approach to Islamic banking can be applied to other financial contracts to structure them more efficiently.

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