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Unlocking the Dormant Potential of *Wakalah bi al-Istitsmar*: Addressing the Fixed-Return Market Gap and Mitigating Moral Hazard in Indonesian Islamic Deposit Contracts

Evan Ferdian Basri
Faculty of Law, University of Indonesia, Indonesia
evanbasri.studi@gmail.com

Gemala Dewi
Faculty of Law, University of Indonesia Indonesia
gemala.dewi@ui.ac.id

Rifki Ismal
Faculty of Law, University of Indonesia, Indonesia
rifki_ismal@yahoo.com

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Abstract: This research aims to address the absence of *fixed-return* instruments in Indonesian Islamic banking, a gap that triggers the imposition of functions (*functional displacement*) on existing deposit-taking contracts (Mudharabah and/or wadi'ah) in order to satisfy *risk-averse depositors*. This structural condition is feared to trigger moral hazard practices that can distort the essence of the contract that leads to *hilah ribawiyah*, for example through the implementation of non-transparent *profit smoothing* management or the promise of *fixed-return* that is made unwritten. Using the juridical-normative method (*doctrinal legal research*), this study analyzes financial regulations (POJK and LPS Law) as well as DSN-MUI Fatwa No. 126/2019 and DSN Fatwa No. 152/2022 through a statutory and conceptual approach by adopting Archer's investment risk theory. The study found that the *Wakalah bi al-Istitsmar* (WBI) Mutlaqah model with a performance incentive mechanism (*Ujrah al-Ada'*) was proven to be able to create a stable return profile in a transparent manner. Furthermore, through the systematic interpretation of POJK No. 13/2021 and the application *of Archer's unrestricted* risk framework , the research proves that WBI Mutlaqah is functionally a liability with deposit characteristics, thus qualifying as an object of guarantee from the Deposit Insurance Corporation (LPS). The study concludes that the adoption of WBI Mutlaqah is a strategic need to mitigate *displaced commercial risks*, provide basic protection for risk-averse depositors, with the ultimate goal of maintaining the purity of *risk-sharing characteristics* in the Mudharabah contract. The academic contribution of this study lies in enriching Islamic legal and financial scholarship through a doctrinal reconstruction of Wakalah bi al-Istitsmar as an alternative fixed-return deposit contract, as well as by strengthening the analytical linkage between investment risk theory, displaced commercial risk, and the deposit insurance regime within the Indonesian Islamic banking framework. The practical contribution of this study is the provision of an operational model and regulatory argumentation that may serve as a reference for regulators, Islamic banks, and Sharia Supervisory Boards in designing transparent, LPS-guaranteed fixed-return deposit products that are free from moral hazard practices.

Keywords: *Wakalah bi al-Istitsmar, Fixed Return, Moral Hazard, LPS Guarantee, Indonesian Sharia Banking*

Abstrak: Penelitian ini bertujuan untuk mengkaji ketiadaan instrumen berimbal hasil tetap (*fixed return*) dalam perbankan syariah di Indonesia, suatu celah yang mendorong terjadinya pergeseran fungsi (*functional displacement*) pada akad penghimpunan dana yang telah ada, khususnya Mudharabah dan/atau Wadiah, guna memenuhi preferensi deposan yang berkarakter *risk-averse*. Kondisi struktural ini dikhawatirkan memicu praktik *moral hazard* yang dapat mendistorsi esensi akad dan mengarah pada *ḥīlah ribāwiyyah*, antara lain melalui penerapan manajemen *profit smoothing* yang tidak transparan atau pemberian janji imbal hasil tetap yang tidak dituangkan secara tertulis. Dengan menggunakan metode penelitian hukum normatif (doktrinal), penelitian ini menganalisis regulasi keuangan (POJK dan Undang-Undang LPS) serta Fatwa DSN-MUI No. 126/2019 dan Fatwa DSN No. 152/2022 melalui pendekatan perundang-undangan dan konseptual dengan mengadopsi teori risiko investasi Archer. Hasil penelitian menunjukkan bahwa model Wakalah bi al-Istitsmar (WBI) Mutlaqah dengan mekanisme insentif kinerja (*Ujrah al-Adā'*) terbukti mampu menciptakan profil imbal hasil yang stabil secara transparan. Lebih lanjut, melalui penafsiran sistematis terhadap POJK No. 13/2021 dan penerapan kerangka risiko *unrestricted* Archer, penelitian ini membuktikan bahwa WBI Mutlaqah secara fungsional merupakan liabilitas yang memiliki karakteristik simpanan, sehingga memenuhi kualifikasi sebagai objek penjaminan Lembaga Penjamin Simpanan (LPS). Penelitian ini menyimpulkan bahwa adopsi WBI Mutlaqah merupakan kebutuhan strategis untuk memitigasi *displaced commercial risk*, memberikan perlindungan dasar bagi deposan berprofil *risk-averse*, serta pada akhirnya menjaga kemurnian karakteristik *risk-sharing* dalam akad Mudharabah. Kontribusi akademik penelitian ini terletak pada pengayaan kajian hukum dan keuangan syariah melalui rekonstruksi doktrinal Wakalah bi al-Istitsmar sebagai alternatif akad simpanan berimbal hasil tetap, sekaligus memperkuat keterkaitan analitis antara teori risiko investasi, *displaced commercial risk*, dan rezim penjaminan simpanan dalam kerangka perbankan syariah Indonesia. Adapun kontribusi praktis penelitian ini berupa penyediaan model operasional dan argumentasi regulatif yang dapat dijadikan rujukan bagi regulator, perbankan syariah, dan Dewan Pengawas Syariah dalam merancang produk simpanan berimbal hasil tetap yang transparan, dijamin LPS, dan bebas dari praktik *moral hazard*

Keywords: *Wakalah bi al-Istitsmar, Imbal Hasil Tetap, Moral Hazard, Penjaminan LPS, Perbankan Syariah Indonesia*.

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Introduction

The growth of the Islamic banking industry in Indonesia occurs in a highly competitive *dual banking system*. In this market structure, Islamic banks not only compete with fellow Islamic entities, but also face to face with established conventional banks. One of the biggest challenges in this asymmetrical competition is the characteristics of depositors in Indonesia who are not monolithic.[1]

The classic assumption that Islamic banking customers are "ideological loyalists" who remain inelastic to interest changes has been increasingly challenged by recent empirical evidence. Masrizal, Sukmana, and Ismal (2025) demonstrate that Islamic bank depositors in Indonesia respond to fluctuations in profit-sharing rates and interest rate opportunities, indicating that depositor behavior reflects a blend of religiosity and rational economic response rather than pure ideological loyalty.[2]

Moreover, research on *Religiosity and depositor funds* in Indonesian Islamic banks highlights that while religiosity can influence deposit levels, economic considerations remain a significant factor in depositor decisions, signifying the rational dimension of customer behavior in the dual banking environment.[3]

This phenomenon of depositor behavior can be explained through the perspective *of Behavioral Finance*, especially the theory of *Loss Aversion* introduced by Kahneman and Tversky (1979).[4] Humans psychologically value losses (decreased returns) far more painful than the satisfaction of earning an equivalent profit. As a result, a strong *Certainty Preference* is formed among customers with risk-averse profiles.[5] A feature that is inherently inherent in conventional deposits (in the form of flat interest) but absent from existing deposit-taking contracts in Islamic banks in Indonesia, either through the Mudharabah contract which is inherently volatile (based on the Bank's performance/profit sharing realization), or in the Wadiah contract which is not designed to get a reciprocal profit.[6]

The absence of sharia instruments that are specifically designed to provide certainty of cash flow (*fixed return*) and then instead burden it on existing deposit-taking contracts, ultimately gives birth to a unique risk known as *Displaced Commercial Risk* (DCR). AAOIFI (1999) defines DCR as risk when an Islamic bank is under pressure to pay a return (profit sharing realization) that exceeds the actual performance of its investment assets in order

[1] Rifki Ismal, 'Depositors' Withdrawal Behavior in Islamic Banking: Case of Indonesia', *Humanomics*, 27.1 (2011), doi:10.1108/08288661111110187.

[2] Masrizal, Raditya Sukmana, and Rifki Ismal, 'Islamic and Conventional Bank Deposits: What Drives Islamic Deposit Movement? A Trade-off between Religiosity and Rationality', *International Journal of Islamic and Middle Eastern Finance and Management*, published online 2025, doi:10.1108/IMEFM-03-2024-0155.

[3] Ibrahim Fatwa Wijaya and others, 'Religiosity and Depositor Funds: Evidence from Islamic Banks in Indonesia', *Journal of Financial Services Marketing*, 29.2 (2024), doi:10.1057/s41264-023-00214-y.

[4] J. Miguel Villas-Boas, 'Toward an Information-Processing Theory of Loss Aversion', *Marketing Science*, 43.3 (2024), doi:10.1287/mksc.2022.0188; Yuchen Tian, 'Behavioral Finance: Loss Aversion, Market Anomalies, and Prospect Theory in Financial Decision-Making', *Highlights in Business, Economics and Management*, 28 (2024), doi:10.54097/h1wnk736.

[5] Amos Tversky and Daniel Kahneman, 'Advances in Prospect Theory: Cumulative Representation of Uncertainty', *Journal of Risk and Uncertainty*, 5.4 (1992), doi:10.1007/BF00122574; Nicholas C. Barberis, 'Thirty Years of Prospect Theory in Economics: A Review and Assessment', in *Journal of Economic Perspectives*, no. 1, preprint, 2013, XXVII, doi:10.1257/jep.27.1.173.

[6] Caturida Meiwanto Doktoralina and Fikki Mutarotun Nisha, 'Mudharabah Deposits among Conventional Bank Interest Rates, Profit-Sharing Rates, Liquidity and Inflation Rates', *International Journal of Financial Research*, 11.1 (2020), doi:10.5430/ijfr.v11n1p25.

to prevent customers from moving their funds to competing banks (*commercial displacement*).[7]

This phenomenon forces Islamic banks to absorb commercial risks that should be borne by investors in order to retain customers. Empirical investigations by Farook[8] and Meslier confirm that Islamic banks respond to these pressures by intervening in existing deposit-taking contracts.[9] In *the Mudharabah* contract , for example, banks practice Profit *Distribution Management*, which is setting aside reserves in the profit period to patch up returns in difficult times (*income smoothing*) to match conventional benchmarks. Although this practice has formal legitimacy, its widespread and non-transparent use can lead to moral hazard that makes the natural characteristics of contracts (*risk sharing*) blurred, which of course has a direct impact on the quality of contracts from the aspect of fulfilling sharia principles.[10]

Previous studies (Farook, Archer, Kasri) have succeeded in identifying the problem *of moral hazard* and *displaced commercial risk*, but the majority stop at recommendations for improving *profit smoothing* governance or customer education.[11] Unfortunately, there has not been a comprehensive study that offers alternative contract construction solutions (other than Tawarruq and Mudharabah) that are in accordance with the Indonesian regulatory context. Emphasizing Indonesia's context is needed because comparatively the challenge of providing *fixed-return instruments* at the global level has actually been answered through contract diversification. Referring to the COMCEC report (COMCEC Coordination Office, 2017) and the practice in Malaysia under *the Islamic Financial Services Act 2013*, it shows the widespread use of *the Commodity Murabahah* (Tawarruq) contract for fixed-return retail deposits, expressly separating it from the Investment *Account* based *on Mudharabah* or *Wakalah* (fluctuating income). However, this approach could not be immediately adopted in Indonesia due to regulatory restrictions that limit Tawarruq to only interbank liquidity. This condition of "*regulatory lock-in*" is what ultimately causes the burden of market expectations to rest again on *the Mudharabah* and *Wadiah* contracts. In the midst of this impasse, DSN-MUI Fatwa No. 126/2019 concerning *Wakalah bi al-Istitsmar* (WBI) is actually present as a regulatory asset that has not been utilized (*dormant asset*), even though this contract has the flexibility of potential incentive features.[12]

Based on this framework, this research aims to construct an operational model of WBI Mutlaqah that is able to break the chain of moral hazard in existing deposit-taking

[7] Marwene Rouetbi, Zied Ftiti, and Abdelwahed Omri, 'The Impact of Displaced Commercial Risk on the Performance of Islamic Banks', *Pacific Basin Finance Journal*, 79 (2023), doi:10.1016/j.pacfin.2023.102022.

[8] Sayd Farook, M. Kabir Hassan, and Gregory Clinch, 'Profit Distribution Management by Islamic Banks: An Empirical Investigation', *Quarterly Review of Economics and Finance*, 52.3 (2012), doi:10.1016/j.qref.2012.04.007.

[9] Céline Meslier, Tastaftiyan Risfandy, and Amine Tarazi, 'Dual Market Competition and Deposit Rate Setting in Islamic and Conventional Banks', *Economic Modelling*, 63 (2017), doi:10.1016/j.econmod.2017.02.013.

[10] Sugiyarti Fatma Laela and Abdul Latif, 'Income Smoothing, Displaced Commercial Risk and Bankruptcy in Indonesian Islamic Banks During the COVID-19 Pandemic', *Journal of Accounting and Strategic Finance*, 6.2 (2023), doi:10.33005/jasf.v6i2.507.

[11] Simon Archer, Rifaat Ahmed Abdel Karim, and Venkataraman Sundararajan, 'Supervisory, Regulatory, and Capital Adequacy Implications of Profit-Sharing Investment Accounts in Islamic Finance', *Journal of Islamic Accounting and Business Research*, 1.1 (2010), doi:10.1108/17590811011033389.

[12] Nik Abdul Rahim Nik Abdul Ghani and Mastura Mohd Saffai Mohd Shafie, 'Islamic Banking Deposit Innovation Post-IFSA 2013: A Qualitative Analysis', *Samarah*, 9.1 (2025), doi:10.22373/sjhk.v9i1.26941.

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contracts, especially maintaining the purity of *the Mudharabah* contract as an investment instrument, as well as providing a new 'room' for depositors who need certainty of results. This research proposes novelty in the form of a performance incentive mechanism (*Ujrah al-Ada'*) as a legitimate financial engineering instrument to replicate *fixed return* features transparently. Furthermore, this study will prove that WBI Mutlaqah—due to its *unrestricted* nature—qualifies as an object of guarantee for the Deposit Insurance Corporation (LPS), diametrically different from the *Sharia Restricted Investment Account* (SRIA) regime regulated in the P2SK Law (Law No. 4 of 2023) which is not guaranteed by the government.

Method

This study employs a juridical-normative research method (doctrinal legal research), as it focuses on examining legal norms, regulatory frameworks, and Sharia governance principles governing deposit-taking instruments in Indonesian Islamic banking. The normative approach is appropriate because the core issue addressed in this research is not empirical depositor behavior per se, but rather the structural mismatch between market expectations for fixed returns and the existing legal-contractual architecture of Sharia-compliant deposit products, which gives rise to moral hazard and displaced commercial risk.[13]

The research adopts a combination of statutory, conceptual, and comparative approaches. Statutory approach is used to analyze positive law and regulatory instruments governing Islamic banking and deposit insurance in Indonesia, particularly:

- Financial Services Authority regulations (POJK), including POJK No. 13/POJK.03/2021 concerning Islamic banking products and activities;
- Law No. 24 of 2004 concerning the Deposit Insurance Corporation (LPS), as amended;
- Relevant regulations governing Sharia compliance and prudential banking principles.

Through this approach, the study assesses whether *Wakalah bi al-Istitsmar* (WBI) Mutlaqah can be legally and functionally classified as a deposit-like liability eligible for LPS coverage.[14]

The conceptual approach is employed to examine doctrinal concepts in Islamic finance and banking law, including:

- Displaced Commercial Risk (DCR) as articulated by AAOIFI;
- Profit Distribution Management and income smoothing practices;
- Risk-sharing versus risk-transfer paradigms in Islamic contracts.

This analysis is strengthened by adopting Archer's investment risk framework, particularly the concept of unrestricted investment risk, to determine the economic substance of WBI Mutlaqah and its compatibility with regulatory and deposit insurance principles.[15]

A limited comparative analysis is conducted by referring to international practices, particularly:

[13] A S Mulazid, 'JURIDICAL STUDY OF THE DEVELOPMENT OF ISLAMIC BANKING LAW AND ITS IMPLICATIONS FOR ISLAMIC BANK PRODUCTS', *Jurnal Ilmiah Mizani*, 9.2 (2022), pp. 253–73, doi:10.29300/mzn.v9i2.2921.

[14] T Berlianty and others, 'Reassessing Islamic Banking Supervision in Indonesia: A Contemporary Islamic and Socio-Legal Perspective on OJK's Integrated Model', *MILRev: Metro Islamic Law Review*, 4.1 (2025), pp. 619–44, doi:10.32332/milrev.v4i1.10851.

[15] Mhd. Rasidin and others, 'Wakalah Bi Al-Istitsmar Dalam Mekanisme Penghimpunan Dana Di Lembaga Keuangan Syariah', *Al-Qisthu: Jurnal Kajian Ilmu-Ilmu Hukum*, 20.2 (2022), doi:10.32694/qst.v20i2.2383.

- The widespread use of Commodity Murabahah (Tawarruq) for fixed-return deposits in several jurisdictions;
- The regulatory framework under Malaysia's Islamic Financial Services Act 2013, which explicitly separates fixed-return deposit products from investment accounts based on *Mudharabah* or *Wakalah*.

This comparative perspective is used not to transplant foreign models directly, but to highlight the regulatory lock-in faced by Indonesia, where Tawarruq is restricted mainly to interbank liquidity, thereby necessitating alternative contract constructions within the existing regulatory space.[16]

The research relies on three categories of legal materials:

1. Primary legal materials, consisting of statutory regulations (POJK, LPS Law), DSN-MUI Fatwa No. 126/2019 concerning *Wakalah bi al-Istitsmar*, and DSN-MUI Fatwa No. 152/2022.
2. Secondary legal materials, including international and national journal articles on Islamic banking, displaced commercial risk, profit smoothing, and behavioral finance.
3. Tertiary legal materials, such as legal dictionaries, encyclopedias, and authoritative reports (e.g., COMCEC reports) that support conceptual clarification.

The analysis is conducted using qualitative normative analysis with deductive reasoning. The study begins with general theories and principles of Islamic finance, investment risk, and deposit insurance, and subsequently applies them to the specific case of WBI Mutlaqah within the Indonesian regulatory framework. Systematic interpretation (*systematische interpretatie*) is applied to harmonize banking regulations, Sharia fatwas, and deposit insurance law, ensuring that conclusions are drawn based on the substance-over-form principle rather than contractual nomenclature alone.[17]

Result and Discussion

Distortion of the Characteristics of the Existing Deposit-taking Agreement

Analysis of the root of the *moral hazard problem* in the collection of Islamic banking funds in Indonesia cannot be separated from the regulatory framework that limits the space for product innovation. Referring to Appendix I of the Financial Services Authority Regulation (POJK) No. 13/POJK.03/2021 concerning the Implementation of Commercial Bank Products, the regulator stipulates that the nomenclature of the basic *product* for Sharia Commercial Banks (BUS) and Sharia Business Units (UUS) is limited to Current Accounts, Savings, and Deposits. In the product specifications, there is no *"Fixed-Rate Deposit Account" product category* that is commonly found in Sharia Banks in the jurisdiction of other countries that implement *the Tawarruq* contract.

The absence of this product can be understood as a logical consequence of the contract restrictions stipulated in the Sharia Banking Law, which specifically only stipulates two main contracts for third-party fundraising, namely *Wadiah* and *Mudharabah*. Although POJK allows the use of other contracts that are in accordance with sharia principles, the

[16] Ghani and Mohd Shafie, 'Islamic Banking Deposit Innovation Post-IFSA 2013: A Qualitative Analysis'.

[17] M Lutfi and A Azis, 'Transformasi Nilai-Nilai Hukum Islam Dalam Yurisprudensi Putusan Mahkamah Konstitusi Perspektif Teori Hukum Integratif', *De Jure: Jurnal Hukum Dan Syar'iah*, 12.1 (2020), pp. 1–16, doi:10.18860/j-fsh.v12i1.8579.

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options owned by Islamic banks in Indonesia are in fact limited, since the use of tawarruq contracts is limited by DSN-MUI Fatwa No. 82/2011 which only allows it for the purpose of liquidity management and hedging, not for mass retail deposit-taking. On the other hand, the *Wakalah bi al-Istitsmar* (WBI) contract as a new option, literally and historically is also more associated as the foundation of investment products (*Investment Accounts*), not deposits.

This condition creates a situation of confinement where the bank does not seem to have the legal flexibility to use alternative contracts other than the two existing deposit-taking contracts. Fundamental problems arise when the Wadiah and Mudharabah contracts are then re-selected and forced to meet the market needs for fixed-income instruments (*fixed rate*). Ontologically, the characteristics of these two contracts are certainly not compatible with the feature of certainty of results. For example, the Wadiah (Trust) Agreement, which is fiqh a pure custody contract (*Custody*). Although banks use the scheme *Wadiah Yad Dhamanah* which guarantees a principal return, this Natur Akad is not designed to generate investment profits. Wahbah Al-Zuhaili [18] in his book *Al-Fiqh Al-Islami wa Adillatuhu* confirms that if the recipient of the deposit (*Shawn O'Neill*) is allowed to use the entrusted goods and bear the risk on them, then the contract is legally changed (*Tahawwul al-Aqd*) from deposits to loans or receivables (*Qardh*). Status change from *Düsseldorf* become *Qardh* This carries serious legal consequences. In the fiqh of muamalah, there is a rule *"Every loan that requires (additional) benefits is riba"* (*Kullu Qardhin Jarra Naf'an Fahuwa Riba*). Therefore, if the product *Düsseldorf* (which is in fact *Qardh*) gives a bonus that is agreed or set in the amount at the beginning like fixed interest, then it falls under the prohibition of usury. On this basis, making *Düsseldorf* as an instrument *fixed rate* is sharia defective.

The same goes for the Mudharabah Agreement, which is a risk-sharing partnership agreement. Its main principle is *al-ghunm bi al-ghurm* (profit comes with risk). Mudharabah returns are ex-post variable returns, meaning that the nominal profit is only known after the realization of business performance at the end of the period. The scholar of the Shafi'i madhhab, Imam Nawawi in his work *Minhaj al-Talibin*, expressly states that if one of the parties requires a share of profits in the form of a definite nominal, then the *muqaradah* (Mudharabah) contract is null and void. The determination *of fixed returns* breaks the relationship between investment results and real business performance, which is contrary to the essence of fairness in partnerships. This is reinforced by AAOIFI Shariah Standard No. 13 which requires the distribution of profits based on *actual realized profit.*[19]

Although characteristically existing deposit-taking contracts are not compatible with the features of fixed income instruments, the COMCEC Report [20] entitled *"Diversification of Islamic Financial Instruments"* actually explains that Indonesia also runs a "Fixed-based Profit sharing/Deposit" product based on the Mudharabah Agreement, while other OIC countries have used the option of *trade-based contracts (Tawarruq)*) or agency

[18] P D W az-Zuhaili, *Fiqih Islam Wa Adilatuhu Jilid 5: Hukum Transaksi Keuangan; Transaksi Jual Beli Asuransi; Khiyar; Macam-Macam Akad Jual Beli Dan Akad Ijarah (Penyewaan)*, 2021 .

[19] Masfi Sya'fiatul Ummah, *SHARI'AH STANDARDS*, *Sustainability (Switzerland)* (Dar AlMaiman, 2015), XI <https://aaoifi.com/>.

[20] COMCEC Coordination Office.

(*Wakalah*) for fixed-based term savings products. This confirms the existence of distortions: a contract that is actually equity-based (volatile) is forced to operate as a *fixed-income-based* product.

The serious gap between market expectations and the substance of the contract, coupled with the pressure of risk-averse customers who demand stable returns [21], confronts Islamic banking in Indonesia with at least four spectrums of consequence scenarios as follows:

1. Behavioral *Shift*: The most ideal scenario is the bank's success in educating the market, so that customers consciously accept the volatile risk exposure. In this condition, customer preferences were successfully changed from *risk-averse* to *risk-sharing*. However, given the dominance of the *floating mass segment* that is sensitive to economic incentives, this scenario has severe literacy challenges and a slow adoption curve. Unfortunately, data from the National Survey on Financial Literacy and Inclusion (OJK, 2022) actually confirms the existence of a significant literacy gap, where public understanding of risk-based contracts is still low.
2. Failure to Absorb: If the behavior transformation fails, the biggest risk is the occurrence of Displaced Commercial Risk (DCR). A recent study by Widarjono [22] confirms that sharia depositors in Indonesia react asymmetrically to interest rates; They tend to withdraw their funds (withdrawals) and transfer them to conventional banks when sharia returns are not competitive. This scenario has a direct impact on the erosion of the third-party funding base. Referring to the Financial Services Authority's Sharia Banking Statistics data (2025), the market share of Islamic banking is still stagnating in the range of 7.38% (*single digit* position), far behind conventional banks.
3. *Product Mismatch*: The third scenario is that the bank succeeds in absorbing funds, but there is a mismatch between the customer's risk profile and the nature of the contract. Risk-averse customers are "forced" to accept fluctuating contracts due to loyalty or limited options. This creates *psychological costs* and customer dissatisfaction that weakens long-term loyalty.
4. Structural Moral Hazard Risk: The fourth scenario—which is the focus of this study's critique—is when banks absorb funds but intervene to bridge the gap between the nature of contracts and market expectations.
    a. In the Mudharabah Agreement: To avoid customers running away (Scenario 2) or being disappointed (Scenario 3), banks are encouraged to make discretionary interventions. As indicated by Meslier [23], Islamic banks are driven to actively manage their deposit rates to match conventional benchmarks, a practice that necessitates Profit Distribution Management—setting aside reserves in profitable times to patch returns in difficult times—so that yields look stable. The distortion of the essence of the contract due to the practice *of income smoothing* is also confirmed through the findings of an in-depth

[21] Kasri and Kassim.
[22] Widarjono, Suharto, and Wijayanti.
[23] Meslier, Risfandy, and Tarazi.

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interview with Prof. Dr. Jaih Mubarok, Member of the Executive Board of the National Sharia Council (DSN-MUI). In the interview, Jaih Mubarok (2025) emphasized that *the practice of income smoothing* is actually not ideal for Sharia Banks because it has the potential to distort the essence of *the* risk-sharing *Mudharabah* contract. Therefore, its application has been limited by DSN Fatwa No.87 of 2012, it is not widely practiced, only for conditions that are strongly suspected of potentially causing the risk of withdrawing customer funds due to the level of rewards from non-competitive LKS (displaced commercial risk).

b. In the Wadiah Contract: A similar distortion was detected in the Wadiah *Yad Dhamanah*. Although normatively the bonus is voluntary, the study of Ismal [24] and Chong & Liu [25] indicates the phenomenon of *Interest Rate Benchmarking*, where the amount of the bonus moves rigidly according to the market interest rate. As a result, bonuses that were originally 'voluntary' change their status substantially into *expected fixed returns*.

WBI Mutlaqah Construction: Incentive-Based Financial Engineering

After identifying the fundamental incompatibility of *the Mudharabah* and *Wadiah contracts* in accommodating the needs of fixed return instruments, this study proposes a new operational model based on the Wakalah bi al-Istitsmar (WBI) contract with the type of Mutlaqah (Unrestricted).

Etymology and classical fiqh, *Wakalah* refers to the granting of power (*tafwidh*) from *a muwakkil* (a customer who owns capital) to *a representative* (a fund management bank) to act on his behalf (Mubarok & Hasanudin, 2019). Meanwhile, *Istitsmar* is a fund or investment development activity. Thus, WBI can be juridically defined as a contract to give power of attorney to banks to invest customer capital in exchange for service fees (*ujrah*)[26].

In the context of global Islamic banking, the WBI contract has been recognized and standardized by one of them AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) in Shariah Standard No. 23 (Agency). Meanwhile, in Indonesia, the WBI Agreement has also been specifically regulated referring to DSN Fatwa No.126/2019. These two regulations explicitly legitimize WBI as a service-based investment/fund development instrument (skill hire) that is fundamentally different from *Mudharabah* (profit-sharing partnership).

For more details, here is the construction of the alliance that can be built in the WBI Agreement by paying attention to Fatwa DSN No.126/2019:[27]

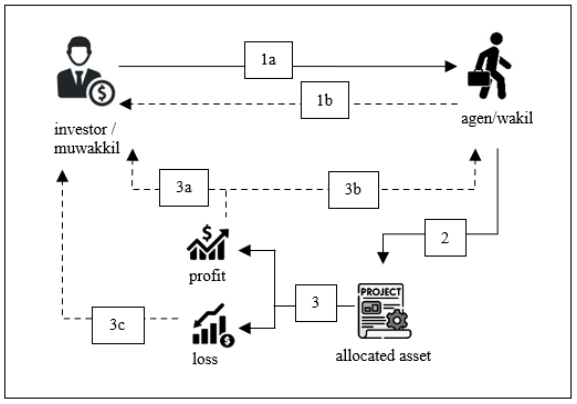
[24] R Ismal, 'The Management of Liquidity Risk In Islamic Banks: The Case of Indonesia. Durham E-Theses. Duham Islamic Finance Program (DIFP) School of …', *Durham Theses, Durham University*, 2010.

[25] Beng Soon Chong and Ming Hua Liu, 'Islamic Banking: Interest-Free or Interest-Based?', *Pacific Basin Finance Journal*, 17.1 (2009), 125–44 <https://doi.org/10.1016/j.pacfin.2007.12.003>.

[26] A M Venardos, *Current Issues in Islamic Banking and Finance: Resilience and Stability in the Present System* (World Scientific Publishing Company, 2010).

[27] DSN-MUI, *Akad Wakalah Bi Al-Istitsmar* (Indonesia, 2019) <https://putusan3.mahkamahagung.go.id/peraturan/de

Chart 1: Construction of WBI Contract



Information:

1. Appointment of Representative: the appointment of a representative by the muwakkil that is expressly and clearly stated in relation to the scope of his/her duties/ WBI Agreement in advance must also specify the period of management that will make the WBI Agreement binding on the Parties. Upon such appointment, the representative may require the payment of the price (ujrah) to the Muwakkil. The imposition of Ujrah on WBI is basically a wage for the Bank in managing the funds submitted by the Customer. The relationship is similar to the relationship between ajir (worker) and mustā'jir, where the bank is the ajir and the customer is the musts'jir. Ujrah or ajr refers to the rental cost for the use of labor and benefits. In the current economic context, ujrah can be applied to salaries, wages, fees, commissions, and the like. Ujrah in this sense is one of the components of harmony in ijarah.
2. Fund Management: The representative manages the funds/investments as agreed in the Akad, which can be mutlaqah (not limited to the type of investment and other restrictions) or muqayyadah (there are agreed limits on the type of investment or other restrictions). Some of the material provisions in the DSN Fatwa that need further attention include:
   a. Investment costs, including all costs incurred related to the investment activities represented, including tax, maintenance and insurance costs (if any), are in principle borne by Muwakkil. Muwakkil may not ask the Deputy to pay such fees from his own funds, nor may he delay the payment of such fees and charge such fees from future investment profits. In the event that the Representative is in the form of a legal entity (*syakhtsiyah i'tibariyah*), the Representative is still responsible for operational costs that are not directly related to the investment, such as HR costs and office facilities
   b. The Representative may initiate investment activities before receiving capital from Muwakkil if Muwakkil allows it, by: (i) Indebtedness on behalf of Muwakkil in the event of investment or purchase of investment instruments with a resilient payment; or (ii) Soliciting to make investments or purchases of investment instruments. In the event that the Deputy provides a bailout, the qardh law applies, that is, it is not allowed to provide additional benefits that are agreed for the benefit of the Deputy due to the provision of the bailout.
3. Distribution of Results and Risks: The income generated from the management of funds by the Representative can be in

tail/11eb40396794f87c9017313432383036.html>.

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the form of profit sharing income, margin or fee/ujrah, in accordance with the contract used in the istitsmar (investment). All istitsmar results, both in the form of profits and losses, are in principle the right or responsibility of Muwakkil, unless there is an agreement on the limitation of certain profits for Muwakkil. If the profit limit has been agreed, 3 (three) scenarios will be formed regarding the right of muwakkil to the realization of income, including:

a. The realization of income exceeds the investment capital, so that in order to reach a certain number of profit limits (profits), the muwakkil is entitled to the profit of a certain number of profit limits;
b. The realization of income exceeds the investment capital of the profit limit (profit), then the muwakkil is entitled to the agreed profit limit, while the excess difference will be an incentive for the Vice either partially or fully (in accordance with the agreement of the WBI Agreement);
c. The realization of income does not reach the amount of capital, so that the loss due to capital is eroded, then the investment risk is fully borne by Muwakkil, unless the loss is caused by the negligence of the representative in the form of al-ta'addi, al-taqshir, and/or mukhalafat al-syuruth. In this regard, DSN Fatwa No.126/2019 allows the representative of his own volition to guarantee the return of the principal investment capital to the muwakkil; or asking a third party to guarantee such return of capital. However, the capital guarantee is not allowed if the initiative comes from the muwakkil.

In contrast to rigid Mudharabah, WBI has the flexibility of compensation structure to replicate fixed returns, through the following components:

1. Determination of Reference Limit (*Expected Return*): Permission to provide *performance fees* "based on the level of profit" logically requires the determination of a profit target / *expected return* at the beginning of the contract as a reference point. Without a clear target, *performance fees* cannot be calculated. In determining the reference limit, in contrast to Mudharabah which uses a ratio (ratio), in WBI Mutlaqah, the Bank and the Customer agree on the nominal or percentage of the expected rate of return (e.g., equivalent to 5% p.a.) as a *benchmark*. This figure is not a guarantee, but a *trigger limit* for incentives.
2. Incentive mechanism. The WBI contract can stipulate that all investment profits that exceed the reference limit (*excess profit*) are partially or fully recognized as the Bank's right in the form of Ujrah al-Ada'. For example, if the Parties have determined that the reference limit is 5%, while the investment turns out to be able to yield 7%, then the customer will receive the 5%, and the remaining 2% will belong to the Bank as an incentive. Thus, the customer is protected from *upside volatility*, so that he receives stable cash flow as expected.
3. Asset Risk Mitigation (*Asset Allocation Strategy*): Incentives can only be given if the profit limit is reached and exceeded. However, in the event that it turns out that the realization of income is less than the profit limit, then the right of Muwakkil is certainly limited to the realization of the income. If the Bank does the opposite, just to avoid *Displaced Commercial Risk* (DCR), then this solution will be no different from

the existing deposit-taking contract which is fundamentally distorted. Therefore, the affirmation that the Customer's profit is basically the realization of income, needs to be emphasized in Akad. However, in order to be able to ensure that WBI Mutlaqah instruments do not lose their fixed return character in general conditions, the Bank is obliged to place WBI Mutlaqah funds in low-risk instruments (*Low Risk & Fixed Income Assets*), such as State Sharia Securities (SBSN) or *High-Grade* Corporate Sukuk, so that they can create *natural hedges*.

As an empirical illustration of the application of the incentive concept to fixed-rate deposit products based on WBI Mutlaqah, referring to data from the Sharia Banking Statistics (SPS) of the Financial Services Authority (2025) shows that the average *Equivalent Rate of Return* (gross) for 1-month Rupiah Mudharabah Deposits is in the range of 3.45% - 3.80%. On the other hand, the SR022 Series Retail Sukuk instrument issued by the government in the May-June 2025 period provides a *fixed coupon* of 6.45% p.a. for a 3-year tenor (DJPPR Ministry of Finance, 2025). With this database, if WBI Mutlaqah-based deposit products are issued with an expected *return* of 3.50% (equivalent to *the* existing 1-month deposit benchmark), and the funds are channeled to *the underlying asset* SR022, then the Bank has a definite financial ability to meet customer expectations. Furthermore, this mechanism mathematically guarantees the acquisition of incentives for the Bank in the amount of the difference, which is 2.95% p.a. (6.45% - 3.50%). This construction proves that the Bank is able to maintain the characteristics of *fixed rates* naturally while obtaining a healthy margin without credit risk (*default risk*)."

In addition, as the next layer of security, this construction has high resistance to *force majeure* conditions or market *disruption*. With its Mutlaqah (not restricted) nature, the Bank has discretionary flexibility to carry out further risk management in the event that the main *underlying is* found to be a decrease in quality or price volatility. This authority allows the Bank to carry out rapid mitigation measures, such as *rebalancing* the portfolio or transferring assets to other safer instruments, without being hampered by rigid contractual constraints as is common in *the Muqayyadah* (Binded) contract. This flexibility is key to maintaining the stability of customers' *expected returns* amid uncertain macroeconomic conditions.

Fiqh Discourse on Incentive Mechanism

The construction of *the fixed return* model in WBI relies on the performance incentive mechanism. Referring to DSN-MUI Fatwa No. 126/2019, investment profits and losses are in principle the rights / dependents of *Muwakkil*. However, the Fatwa provides an important exception: if it is agreed that there is a limit *to the expected return* for *Muwakkil*, then the excess *profit* may belong to *the Representative*, either partially or fully, as an Incentive (*Hafiz*) for his performance. Nevertheless, between *jahalah* and the applicability of the clause "agent incentive for excess profits" has a strong discourse root in fiqh literature:

1. Permissible Opinion: The scholars of the Hanbali madhhab, including Ibn Qudamah in *Al-Mughni*, allowed this scheme. The basis is the atsar of Ibn Abbas r.a. who stated the validity of the agency contract by saying: *"Sell this garment at a certain price, and what is more (than that price) will be yours"* (Ibn Qudamah, 1997). This opinion was adopted by the DSN Fatwa

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because it accommodates business needs for performance incentives.

2. Prohibitory Opinion: On the contrary, the majority of scholars (Hanafiyah, Malikiyah, Shafi'iyah) tend to view this scheme *as a façade* (damaged) because it contains elements of gharar/jahalah (uncertainty). The agent's wages (*ujrah*) should be known in a definite manner (*ma'lum*) at the beginning, not dependent on excess profits that do not necessarily exist [28].

The researcher is of the view that the application of the right of incentive to banks if the profit realized exceeds the expected profit level can be closely related to the principle of ju'ālah, which has also been affirmed in reference to DSN Fatwa No. 62 on the Sale Agreement. The term Ju'alah senditi is better known as a reward. In contrast to *Ijarah* which requires a definite wage, *Ju'alah* is a commitment (*iltizam*) to provide rewards (*ju'l*) that is dependent on the achievement of certain results (*natijah*). With this construction, the uncertainty of the nominal incentive becomes legitimate. The right of incentives is purely performance-dependent: The bank is only entitled to take *excess profits* if and only if the realization of the investment exceeds the expected *return limit*. To clarify the fiqh positions and their reconstruction in the WBI Mutlaqah framework, the core analytical criteria are summarized in Table 1

Table 1. Fiqh Criteria of Incentive Mechanism in WBI Mutlaqah

Key Issue	Classical Fiqh Position	Reconstruction in WBI Mutlaqah	Sharia Implication
Basis of Incentive	Hanbali: incentive from excess profit permitted (Ibn Qudamah); Jumhur: invalid due to jahālah	Incentive linked to performance above expected return	Legitimate if not guaranteed
Nature of Uncertainty (Jahālah)	Majority requires definite ujrah (ijārah)	Incentive framed as **ju'ālah**, not ujrah	Jahālah tolerated under ju'ālah
Expected Return Clause	Suspected as profit determination	Treated as **profit cap**, not profit guarantee	Not *ziyādah 'alā al-qardh*
Comparison with Interest (Riba)	Interest arises from time value of money	Return derives from underlying asset performance	Avoids *ḥīlah ribāwiyyah*
Comparison with Tanāzul Practice	Tanāzul may conceal losses	Incentive works as **ceiling**, not subsidy floor	Reduces moral hazard and information distortion

Source: Author interpretation

As summarized in Table 1, the incentive mechanism in WBI Mutlaqah is doctrinally reconstructed as a ju'ālah-based performance reward rather than a predetermined return. In addition, the inclusion of *expected return* as the profit limit that is the basis for calculating incentives, is also a polemic in itself that cannot be separated from the discussion of hillah ribawiyah, where the WBI Agreement can be considered as only a mimicry of the engagement on conventional bank deposits, which also includes the expected return as interest. However, an in-depth analysis of the substance of the contract reveals material differences that separate WBI from the category of usury. In comparison, interest on conventional deposits is a contractual obligation that arises solely due to the passage of time (*time value of money*), regardless of the use of the funds. In the construction of WBI, *the expected return* is not a mandatory addition to debt (*ziyadah 'ala al-qardh*), but a projected investment return from a specific *underlying asset*, such as SBSN. If the underlying asset

[28] az-Zuhaili.

defaults—not due to the bank's negligence—then WBI customers still bear the risk of losing revenue. Therefore, the inclusion of *expected returns* in the WBI is a form of profit *cap* in the expertise lease contract, not an interest determination. This avoids *hilah ribawiyah* because the risk of ownership *is* still inherent in the customer, even though it is mitigated through the selection of safe assets [29].

Shariah, regarding the fatwa allowing incentives, in fact it is not a new precedent for DSN-MUI or AAOIFI. Referring to DSN-MUI Fatwa No. 08/DSN-MUI/IV/2000 concerning Musharakah Financing, Fourth Provision letter (d) explicitly states: *"A partner may propose that if the profit exceeds a certain amount, the excess or percentage is given to him."* This provision specifies that the division of profits does not always have to be proportionate forever; the parties may agree that the profits of one party are *capped* at a certain nominal, and the remainder belongs to the managing partner. The same principle is also widely adopted in the practice of Income Smoothing in Islamic banking, where banks utilize the Tanazul al-Haq mechanism or reserve management to stabilize customer return expectations—a strategic response to market competition as evidenced by Meslier et al. (2017). Thus, the inclusion of *expected return* as *a stamp* on WBI has a valid *basis for takyif fiqh* and is not hillah ribawiyah (riba engineering).

In addition, the practice of incentives in the WBI Agreement according to the author is healthier than the practice of *tanazul* in Musyarakah/Mudharabah. In existing *profit smoothing* practice , *the tanazul* mechanism is often used as an artificial floor. As criticized by Archer et al. (2010), banks often do *Tanazul* (stripping their rights) precisely when investment performance is poor to subsidize customer returns. This practice, if not implemented transparently, has the potential to create *moral hazard* in the form of information distortion on the performance of the Mudharabah object, where customers are not aware of the actual investment risk because it is "covered" by bank subsidies. On the contrary, the incentive mechanism in WBI works as a ceiling. Banks only have the right to take incentives if investment performance exceeds the target. In this case, if performance falls below *the expected return*, the incentive mechanism is inactive, and the customer receives the result as it is (*pass-through*). There is no obligation or motive for the customer (as the incentive provider) to make a subsidy back to the Bank. In addition, according to Prof. Jaih Mubarok (2025), there is a greater potential for violations of tannazul haq, namely when tannazul haq is given beyond the portion of its profit sharing realization, after the realization of income multiplied by the profit sharing ratio.

This makes WBI a much more transparent and integrity instrument in placing the expected return function. It limits *upside volatility*, but does not hide *downside risk*, thereby minimizing systemic risks due to *moral hazard behavior* that is feared to affect the sharia of Islamic banking, because it distorts the essence of the Mudharabah Agreement which should be based on profit sharing.

[29] Muhammad Faruq Roslan and others, 'Application of Tawarruq in Islamic Banking in Malaysia: Towards Smart Tawarruq', *International Journal of Management and Applied Research*, 7.2 (2020), 104–19 <https://doi.org/10.18646/2056.72.20-008>.

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WBI Mutlaqah Savings Guarantee

Fundamentally, Diamond and Dybvig (1983) define the role of banks as providers of liquidity and security. Depositors place their funds in the bank not to take asset *risk*, but to secure purchasing power. A deposit contract is in nature a *Demandable Debt* (an obligation that can be billed at any time with a fixed value). Therefore, if WBI Mutlaqah is designed to underlie fixed return deposits, then it must meet the characteristics of *Safe Assets*. This inherently requires the protection of the principal value through a guarantee mechanism, which in the national banking system is carried out by the Deposit Insurance Corporation (LPS).

On the other hand, the biggest challenge in the adoption of the WBI contract as a third-party deposit product is the regulatory perception that this contract is categorized as "Investment" (which is a translation of Istitsmar itself) as *an Investment Account*, thus making it excluded from the guarantee scheme of the Deposit Insurance Corporation (LPS). This research proposes a legal construction to straighten out this perception.

The main basis for deposit guarantee in Indonesia is Law No. 24 of 2004 concerning Deposit Insurance Institutions (LPS Law) as amended last by Law No. 4 of 2023 (P2SK Law). Article 10 Paragraph (1) of the LPS Law emphasizes that: *"Guaranteed deposits include Current Accounts, Deposits, Certificates of Deposit, Savings, and/or other forms equivalent to it."*. Furthermore, the explanation of Article 11 Paragraph (1) provides flexibility in the choice of contract chosen, by stipulating that Deposits based on Sharia Principles include contracts: (1) Wadiah (Current Account/Savings); (2) Mudharabah (savings/deposits); and (3) other contracts that do not conflict with Sharia Principles. This provision emphasizes that the LPS Law does not limit guarantees only to Wadiah and Mudharabah. The absolute requirement for a sharia product to be included in the scope of LPS guarantee is not the name or type of contract, but the substance that must meet the element of "Deposit", namely the bank's obligation to return customer funds (*liability nature*). To assess whether WBI Mutlaqah substantively fulfills the criteria of a guaranteed deposit, its legal, regulatory, and sharia characteristics are systematically summarized in Table 2

Table 2. LPS Coverage Criteria for WBI Mutlaqah

Key Aspect	Legal / Regulatory Basis	Position of WBI Mutlaqah	Implication for LPS Guarantee
Deposit Function	Diamond & Dybvig (1983)	Fixed-return design to preserve liquidity and purchasing power	Requires principal protection
Deposit Definition	LPS Law No. 24/2004, Art. 10–11	Principal value and deposit-like maturity	Qualifies as "other equivalent form"
Liability Nature	Substance-over-form principle	Recorded on-balance sheet as third-party funds	Obligation to return principal
Risk Control	Archer et al. (2010); POJK 13/2021	Bank manages unrestricted funds (mutlaqah)	Analogous to guaranteed Mudharabah Mutlaqah
Sharia Legitimacy	DSN-MUI Fatwa No. 126/2019	Guarantee by bank or LPS (third party)	Sharia-compliant capital protection

Source: Author Interpretation

As summarized in Table 2, WBI Mutlaqah meets the substantive definition of a deposit under the LPS Law through its liability nature, risk allocation, and sharia-compliant capital protection framework. Thus, based on the definition of the LPS Law, the Wakalah bi al-Istitsmar (WBI) Mutlaqah (Unrestricted) Contract meets the juridical qualifications to be included in the scope of guarantee for at least three substantial reasons as follows:

1. Other Similar Forms: Referring back to

Article 10 of the LPS Law regarding "other forms of equalization", WBI Mutlaqah is designed to have features that are identical to Deposits, namely having a term *deposit* and principal value. Therefore, rejecting the guarantee of WBI Mutlaqah is contrary to the spirit of customer protection in the LPS Law.

2. Liability *Nature*: In the WBI Mutlaqah scheme, banks are given full authority to manage funds and *commingle funds* with bank assets. The accounting consequence of this characteristic is that the fund is recorded in the bank balance sheet (*on-balance sheet*) as a Third-Party Fund (Liability). In contrast to WBI Muqayyadah (Tied Investment) which is recorded outside the balance sheet (*off-balance sheet*). Because it is recorded as a liability, legally a debt-creditor relationship arises in *a* broad sense, where the bank is obliged to return the principal deposit to the customer.
3. Risk Control in Banks: Adopting the Risk Theory of Archer et al. (2010), which distinguishes the status of Mutlaqah and Muqayyadah in the Mudharabah Agreement, where the Bank has full control of managing unrestricted accounts based on mudharabah mutlaqah, thus placing commercial risk on the bank (*Displaced Commercial Risk*)). In this case, the Bank acts as a liquidity risk bearer, so it has a depository nature. Meanwhile, in mudharabah mutlaqah, due to the restrictions on management by the Bank and the investment itself is determined by the Customer, the risk becomes borne by the Customer. This may explain why POJK 13/2021 stipulates that Mudharabah Mutlaqah is guaranteed by LPS, while Mudharabah Muqayaddah is not guaranteed by LPS. If Mudharabah Mutlaqah (which incidentally is also an investment contract) is guaranteed because the risk is managed by the bank, then argumentum *a simili* (equality analogy), WBI Mutlaqah is also worthy of being guaranteed by LPS.

The construction mentioned above is also in line with the distinction between the Deposit and Investment regimes which has been expressly regulated in Law No. 21 of 2008 concerning Sharia Banking as last amended based on the P2SK Law, which explains that products classified as 'Investment' (SRIA) are explicitly required to include a statement not guaranteed by LPS.

The guarantee of the principal of WBI Mutlaqah also has strong sharia legitimacy. DSN-MUI Fatwa No. 126/2019 basically prohibits muwakkil (Customer) from requiring capital guarantee to a representative (Bank), but on the one hand it also affirms its ability in the event that the guarantee of capital return is carried out at the will of the representative (bank) himself voluntarily (*tabarru'*). The fatwa also allows Muwakkil to ask a third party to guarantee the return of his capital, which in the national banking system is carried out by LPS based on the mandate of the Law. This confirms that *the capital protection* feature is not necessarily haram, as long as the initiative comes from the fund manager voluntarily for the purpose of benefit or risk management strategy. Thus, the *nature of the istitsmar* in WBI, although literally related directly to the term "investment", does not make it immediately outside the scope of the object of LPS guarantee. It has also obtained its sharia legitimacy based on Fatwa DSN 126/2019 which has provided a special fiqh basis for LPS to guarantee fixed return deposits based on the WBI Mutlaqah contract.

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Conclusion

This study concludes that the root of the *moral hazard* problem in the collection of Islamic banking funds in Indonesia—such as the practice *of profit smoothing* and *benchmarking* interest rates—is not just operational irregularities, but the result of ontological incompatibility. The dominance of *Mudharabah* (profit-sharing-based) and *Wadiah* (voluntary deposit-based) contracts that are forced to serve market demand for *fixed returns* creates a fundamental distortion, where banks have to artificially engineer uncertainty into certainty. The confinement of these two contracts (*regulatory* & *practical lock-in*) hinders the transparency and integrity of sharia.

As a prescriptive solution, this study proposes the reconstruction of stored products using the Wakalah bi al-Istitsmar (WBI) Mutlaqah contract. Through a *financial engineering approach*, WBI offers a mechanism that is more honest and transparent than Mudharabah. By utilizing the legitimacy of DSN-MUI Fatwa No. 126/2019 and AAOIFI standards, WBI allows the implementation of the Performance Incentive scheme (*Ujrah al-Ada'*) sourced from *excess* profits. This construction, combined with the asset allocation strategy in fixed income instruments (to create *a natural hedge*), has proven to be able to generate *competitive fixed returns* for customers while securing profit margins for banks without violating sharia principles. Therefore, the adoption of this model is recommended as a new instrument standard for fixed-rate Islamic term deposits, complementing the *existing profit-sharing regime* , in order to meet the preferences of the conservative customer segment (*risk-averse*) with integrity and free from *moral hazard dilemmas*.

CRediT authorship contribution statement

Evan Ferdian Basri: Conceptualization, Research design, Theoretical framework, Writing – original draft, Supervision. Gemala Dewi: Methodology, Formal analysis, Data interpretation, Writing – review & editing. Rifki Ismal: Legal and doctrinal analysis, Literature review, Validation, Critical review, Proofreading, Final revision. All authors have read and approved the final manuscript.

Declaration of competing interest

The authors declare that they have no known competing financial, institutional, or personal interests that could have appeared to influence the work reported in this paper.

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