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EVALUATING FICTITIOUS OWNERSHIP IN SHARIAH-COMPLIANT CAPITALISM: THE FAILURE OF CORPORATE GOVERNANCE AND MURABAHAH CONTRACT IMPLEMENTATION IN INDONESIA

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Abstract

Purpose: This study aims to critically evaluate the intersection of corporate governance failures and legal formalism within Indonesia's Islamic banking sector. Specifically, it investigates how the phenomenon of "Shariah-compliant capitalism" manifests through financial mimicry and the normalization of fictitious ownership in murabahah contracts. Design/methodology/approach: Employing a philosophical hermeneutic approach coupled with an ideological critique, this paper analyzes the operational realities of contemporary Islamic financial contracts. The study integrates agency theory to deconstruct the systemic asymmetry between formal Sharia compliance and the actual implementation of institutional governance. Findings: The analysis reveals a structural failure in corporate governance, wherein Islamic banks operate predominantly as passive financiers, neglecting substantive, real-time asset monitoring. This absence of managerial oversight facilitates an isomorphic convergence with conventional banking, reducing the murabahah contract to a mere nominal substitution replacing the term "interest" with "margin." Consequently, the system perpetuates fictitious ownership, prioritizing deontological legal adherence over the teleological objectives (maqasid al-shariah) of socio-economic justice. Practical implications: Policymakers, particularly the Financial Services Authority (OJK) and the National Sharia Board (DSN-MUI), must urgently recalibrate their regulatory frameworks. There is a critical imperative for Sharia Supervisory Boards (SSB) to transcend administrative procedural audits and enforce rigorous, on-ground monitoring of actual contract implementation to curb systemic demoralization. Originality/value: Moving beyond conventional legal or accounting-centric evaluations, this paper provides a robust epistemological critique by linking philosophical anomalies with empirical governance failures. It offers a novel perspective on how institutional and supervisory deficiencies sustain Shariah-compliant capitalism in emerging Islamic financial markets.
Keywords: Shariah-Compliant Capitalism, Corporate Governance, Murabahah, Maqasid al-Shariah

Abstrak

Tujuan: Penelitian ini bertujuan untuk mengevaluasi secara kritis titik temu antara kegagalan tata kelola perusahaan (*corporate governance*) dan formalisme hukum dalam sektor perbankan syariah di Indonesia. Secara khusus, penelitian ini menginvestigasi bagaimana fenomena "kapitalisme patuh syariah" (*Shariah-compliant capitalism*) bermanifestasi melalui mimikri finansial dan normalisasi kepemilikan fiktif dalam akad murabahah. Desain/metodologi/pendekatan: Dengan menggunakan pendekatan hermeneutika filosofis yang dipadukan dengan kritik ideologis, artikel ini menganalisis realitas operasional dari akad keuangan syariah kontemporer. Penelitian ini mengintegrasikan teori keagenan (*agency theory*) untuk mendekonstruksi asimetri sistemik antara kepatuhan syariah formal dan implementasi nyata dari tata kelola institusional. Temuan: Analisis ini menunjukkan adanya kegagalan struktural dalam tata kelola perusahaan, di mana bank syariah beroperasi secara dominan sebagai penyedia dana pasif dan mengabaikan pemantauan aset secara substantif dan seketika (*real-time*). Ketiadaan pengawasan manajerial ini memfasilitasi konvergensi isomorfik dengan perbankan konvensional, sehingga mereduksi akad murabahah menjadi sekadar substitusi nominal yang mengganti istilah "bunga" dengan "margin". Akibatnya, sistem ini melanggengkan

kepemilikan fiktif dan lebih memprioritaskan kepatuhan hukum deontologis daripada tujuan teleologis (*maqasid al-shariah*) dari keadilan sosio-ekonomi. Implikasi praktis: Pembuat kebijakan, khususnya Otoritas Jasa Keuangan (OJK) dan Dewan Syariah Nasional-Majelis Ulama Indonesia (DSN-MUI), harus segera mengalibrasi ulang kerangka regulasi mereka. Terdapat kebutuhan mendesak bagi Dewan Pengawas Syariah (DPS) untuk melampaui audit prosedural administratif dan menegakkan pemantauan lapangan yang ketat terhadap implementasi akad yang sebenarnya guna membendung demoralisasi sistemik. Orisinalitas/nilai: Melangkah lebih jauh dari evaluasi konvensional yang berpusat pada hukum atau akuntansi, artikel ini menyajikan kritik epistemologis yang kuat dengan menghubungkan anomali filosofis dan kegagalan tata kelola empiris. Penelitian ini menawarkan perspektif baru tentang bagaimana defisit institusional dan pengawasan mempertahankan kapitalisme patuh syariah di pasar keuangan syariah yang sedang berkembang (*emerging markets*).
Kata Kunci: Kapitalisme Patuh Syariah, Tata Kelola Perusahaan, Murabahah, Maqasid al-Shariah.

1. Introduction

Islamic banking has emerged as a key pillar of the global Islamic finance industry, offering an alternative to the conventional interest-based financial system. This system is based on the prohibition of usury (riba) and the promotion of ethical, fair, and spiritually sound financial practices. As of June 2023, total assets in the global Islamic finance industry reached USD 4.5 trillion, with the Islamic banking sector contributing 68% of this total (Islamic Financial Services Board, 2023). While this figure demonstrates rapid growth, this expansion raises critical questions about the extent to which this system remains true to its foundations of true Islamic values.

Despite using the "sharia" label, contemporary Islamic banking is often accused of merely replicating the structure and logic of conventional finance under the guise of Islamic law. This phenomenon, known as financial mimicry, has the potential to reduce the transformative value of Islamic economics to a mere imitation of the capitalist system. Research shows that the murabahah contract, the most dominant form of Islamic banking, often resembles conventional credit systems in practice (Khan, 2013; Dusuki & Abozaid, 2007). This fact indicates a mismatch between the normative ideals of Islamic finance and its operational reality.

The fundamental problem with this situation is the loss of the "ruh" or spiritual and ethical substance that should be at the core of the Islamic economic system. Concepts such as falah (holistic welfare) and *maqasid al-shariah* (the primary objectives of sharia) appear to have been replaced by an orientation toward formal legal compliance and profit-making. Several scholars, such as Asutay (2007) and Choudhury (2019), argue that Islamic finance has shifted from a teleological orientation (ultimate goals) to a deontological one (solely fulfilling the law). This shift has serious implications for the integrity and sustainability of the Islamic banking system in the future.

This epistemological crisis is exacerbated by the dominance of legal formalism, which neglects philosophical reflection in the development of Islamic finance. In practice, the Islamic financial system places greater emphasis on the mechanisms of fiqh (Islamic jurisprudence) and fatwas (religious edicts) to validate financial products than on delving into the philosophical goals and values behind them. As a result, Islamic financial products often display the outward appearance of Sharia compliance but lack substantive meaning (shariah compliance without maqasid relevance) (Ahmed, 2011). The absence of philosophy in the system's formulation has resulted in a financial architecture devoid of transcendental Islamic values.

The absence of philosophical critique makes it easy for Islamic banking to become trapped within the ideology of global neoliberal capitalism. Adapting the Islamic financial system to the global market often requires compromising its ethical vision for the sake of institutional acceptability and market efficiency. This is evident in the increasing convergence of Islamic banking products with conventional banking products, both in structure, pricing, and objectives (El-Gamal, 2006). This reality demonstrates a systemic failure to maintain the ontological distinction between Islamic and conventional finance.

This article argues that the current Islamic banking system faces a profound philosophical crisis due to its deviation from the principles of monotheism and the ethics of maqasid. The analysis presented aims to go beyond technical and juridical approaches to assessing Islamic banking by offering a philosophical review of its underlying assumptions, values, and objectives. By integrating classical Islamic thought with contemporary philosophical economic theory, this article seeks to uncover the internal contradictions within Islamic financial practices. This critique is necessary to reclaim the "spirit" of Islamic finance and restore its mission as an instrument for holistic human development.

Through a philosophical-qualitative methodological approach, this article aims to critically examine the ontological and epistemological crises experienced by the contemporary Islamic banking system. Specifically, this research aims to philosophically evaluate the extent to which the principles of monotheism and *maqasid al-shariah* are still used as the operational basis in modern Islamic banking practices. This research also aims to offer a more ethical and transformative alternative framework for the development of values-based Islamic finance. Thus, this article is expected to provide a theoretical contribution in strengthening the spiritual and philosophical dimensions of Islamic banking architecture and encouraging conceptual reform towards a more authentic and equitable Islamic financial system.

2. Theoretical Framework

2.1 Islamic Economic Philosophy: Tawhid, Maqashid, and Ethics

Islamic economic philosophy rests on the concept of monotheism as the primary ontological principle that animates all aspects of life, including economic activity. Monotheism in this context not only affirms the oneness of God but also reflects the integration of the spiritual and social dimensions of humankind. The Qur'an affirms that all creation is subject to divine rule: "To Allah belongs all that is in the heavens and the earth" (Qur'an, 2:284), indicating that true ownership is divine, while humans are merely caliphs or managers (Qur'an, 3:30). Consequently, all economic practices in Islam must be directed towards achieving falah (holistic well-being), not merely efficiency or the accumulation of profit (Choudhury, 2019).

The principle of maqashid al-shariah is an epistemological derivative of monotheism that serves as a guide in designing economic systems. Maqashid encompasses the protection of religion (din), life (nafs), reason (‘aql), descendants (nasl), and property (mal), which, when applied comprehensively, will result in a just and sustainable financial system. The Qur'an states: "Indeed, Allah commands you to act justly and to do good..." (QS. An-Nahl: 90), which serves as the normative basis for all economic interactions.

Islamic economic ethics are rooted in moral values such as honesty (sidq), justice ('adl), and trustworthiness, which underlie economic transactions. In Surah Al-Mutaffifin: 1–3, Allah condemns economic actors who cheat in weights and measures, as a form of injustice in trade. This verse underscores the importance of integrity in business and finance. However, in contemporary practice, these philosophical and ethical aspects are often marginalized. The reduction of maqasid to mere legal compliance has led to the loss of the depth of values and spirituality in the Islamic financial system.

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Figure 2.1
Theoretical Framework of Islamic Economic

2.2 Critique of Islamic Banking: Existing Literature

Contemporary Islamic banking has been criticized for merely adopting Islamic symbols without substantively internalizing Islamic values. This phenomenon is known as post-Islamism, which refers to the tendency to maintain an Islamic identity in the public sphere while separating the ethical and spiritual dimensions in its implementation (Bayat, 2007). In this context, Islamic banks have become commercial institutions that mimic the structure and orientation of conventional banking, without any profound epistemological transformation.

One major criticism is the occurrence of financial mimicry, where Islamic banks create products that resemble conventional products, such as murabahah, which serves as a substitute for fixed-interest loans (El-Gamal, 2006; Khan, 2013). This phenomenon indicates that profitability is more dominant than achieving the maqasid al-shariah (the Islamic principle). Similar practices also occur in the implementation of musyarakah contracts. Islamic banks formally state that these contracts are a form of business cooperation based on risk participation. However, in practice, banks only function as funding providers without significant involvement in the management of customer business projects.

Research by Lestari (2021) shows that Islamic banks rarely monitor and evaluate business projects within musyarakah contracts, thus diminishing their substantive role as business partners. This makes musyarakah contracts not significantly different from conventional credit contracts, which focus solely on repayment rather than the success of the joint venture. Such practices indicate a deviation from the principles of true syirkah, which should be based on fairness, shared responsibility, and the active involvement of both parties.

This situation reinforces the conclusion that Islamic banking has not demonstrated a significant philosophical distinction compared to the capitalist system. Instead, Islamic banking has tended to commercialize Islam, resulting in the loss of the normative vision of Islamic economics as an instrument of social and spiritual change.

2.3 Socio-Economic Philosophical Framework

Islamic socio-economic philosophy has deep roots in the classical thought of Muslim philosophers such as Al-Farabi, Ibn Khaldun, and Al-Ghazali. Al-Farabi, in his work "Al-Madinah al-Fadhilah," emphasized that an ideal society is led by a wise leader capable of guiding its citizens toward true happiness (sa'adah) through the integration of reason and revelation. This led to the view that the economy cannot be separated from the moral and political structure of society. As Netton (1991) points out, Al-Farabi viewed economic activity as part of a social order with transcendental goals. Therefore, the Islamic financial system should not stand alone technically, but rather be part of a broader ethical-political order.

Ibn Khaldun, through his magnum opus, the Muqaddimah, introduced a sociological economic theory linking the dynamics of civilization, power, and wealth. He argued that economic growth is closely related to justice in public policy and the sustainability of social solidarity (asabiyyah). His findings demonstrated that a nation's economic success is determined not only by capital or natural resources, but also by political stability and social integrity. As outlined by Spengler (1964), Ibn Khaldun was a pioneer of cyclical economic theory and emphasized the importance of the real sector in driving prosperity. In conclusion, Islamic financial institutions must pay attention to the historical and sociological dimensions of economic development, rather than simply focusing on financial products.

Al-Ghazali emphasized the ethical and spiritual dimensions of economic activity through the concepts of *maslahah* and *tazkiyah* (purification of the soul). In his work, Ihya' Ulum al-Din, he explained that wealth is a means, not an end, and that its use should bring humans closer to God. His views suggest that economic behavior must be based on righteous intentions and honest governance. A literature review by Chapra (2000) confirms that individual ethics plays a key role in creating equitable finance. Thus, the Islamic economic philosophy inspired by Al-Ghazali demands the spiritualization of institutions, not just formal shariaization.

The thoughts of contemporary Muslim philosophers such as Seyyed Hossein Nasr, Masudul Alam Choudhury, and Mehmet Asutay reinforce this framework with a more systemic approach. Nasr (1989) promoted a sacred economy as a form of resistance to the secularization of the modern economy. Meanwhile, Choudhury (2011) offered a *tawhidi* epistemology model that emphasizes the interconnectedness of knowledge, values, and policies within a unified system. Asutay (2007) developed an Islamic moral economy that places distributive justice and collective welfare at the center of the Islamic financial system. These three thinkers contributed a philosophical foundation for building a more substantial and comprehensive model of Islamic banking.

By integrating classical and contemporary thought, we can derive a framework for Islamic socio-economic philosophy that offers a multidimensional approach, emphasizing the moral, ethical, and transcendental objectives of financial activities. This provides a critical basis for assessing whether current Islamic banking practices truly reflect the noble vision of Islam or are trapped in the logic of capitalism disguised by Islamic symbols. Therefore, the development of Islamic financial institutions should not only be oriented towards efficiency and profit, but also towards spiritual meaning, social responsibility, and structural justice.

3. Research Method

This research uses a qualitative approach with a critical-constructive philosophy paradigm, aiming not only to critique contemporary Islamic financial practices but also to offer a new theoretical framework more aligned with basic Islamic principles. This approach aligns with the objectives of philosophical research, which are not only descriptive but also normative and transformative (Kerlinger & Lee, 2000). Critical philosophical research allows for the deconstruction of dominant value systems and the reconstruction of epistemological frameworks more aligned with Islamic values (Choudhury, 2019). With this approach, the meanings and values within the Islamic financial system are analyzed in depth to reveal the tension between normative ideals and practical realities.

3.1. Philosophical Approach

The two main approaches used are philosophical hermeneutics and ideological critique. The philosophical hermeneutic framework enables a reinterpretation of central meanings in Islamic financial discourse, such as usury, justice, falah, and blessings (Gadamer, 1975). This interpretation is not intended to seek literal meaning, but rather to connect classical texts with current historical and social horizons in an economic context (Nasr, 1981; Arkoun, 2002). This aligns with the contextual and dynamic spirit of Islam, which responds to changing times.

Meanwhile, an ideological critique approach is used to explore how normative Islamic values have been co-opted within the global capitalist system. This critique is based on the assumption that the dominant economic system influences how Islam is practiced in contemporary financial institutions (Asutay, 2007; Tripp, 2006). Islamic banking practices that are too similar to conventional banking indicate financial mimicry, which deviates from the values of tawhid (Islamic unity), maslahah (beneficial principle), and distributive justice (Choudhury, 2008; Lestari, 2021). Therefore, a critical analysis of the ideology embedded in Islamic banking practices is crucial to distinguish between what is substantial and what is instrumental.

3.2. Data Sources

This study uses qualitative data from three sources: primary documents, classical texts, and contemporary literature. Primary documents such as fatwas from the National Sharia Council (DSN-MUI), annual reports of Islamic banks, and financial product prospectuses are used to examine how Islamic finance concepts are implemented in practice (DSN-MUI, 2000–2024; BSI Annual Report, 2024). These documents demonstrate the gap between normative principles and implementation practices in the field.

Furthermore, this study utilizes classical texts from prominent scholars such as al-Ghazali, Ibn Khaldun, and Ibn Taymiyyah as authoritative sources in interpreting Islamic economic concepts. For example, al-Ghazali's Ihya' Ulumuddin provides a spiritual ethical basis for economic transactions, while Ibn Taymiyyah's al-Hisbah emphasizes the importance of market oversight and justice (Al-Ghazali, 2005; Ibn Taymiyyah, 1985). Ibn Khaldun, in the Muqaddimah, contributed theories on economic cycles and social solidarity (asabiyyah) as a basis for understanding Islamic finance more contextually (Ibn Khaldun, 2006).

As a complement, contemporary literature such as the ideas of Chapra (2000), Asutay (2007), Mirakhor and Askari (2010), Choudhury (2008), Tripp (2006), and Nasr (1981) is also used. This literature helps actualize the epistemological and ethical framework in the context of globalization and the dominance of the capitalist system. In particular, Choudhury emphasizes the importance of tawhidi epistemology, while Asutay develops the concept of Islamic Moral Economy as a critique of the legalistic approach to Islamic banking.

3.3. Analysis Method

This research employs a critical-conceptual analysis, which aims to analyze and reassess fundamental concepts in Islamic economics and finance. This method allows researchers to evaluate the meaning of riba, justice, and blessings in the contemporary economic system and compare them with the normative objectives of sharia (maqasid al-shariah) (Kamali, 2008; Haneef, 2009). This approach also allows for a mapping between classical texts, contemporary theory, and practice.

Furthermore, ideological and ethical analysis is used, an approach that seeks out hidden or marginalized values within Islamic financial institutions (Asad, 2003; Zaman, 2002). For example, limited bank participation in the management of syirkah projects indicates a weak commitment to the spirit of musyarakah and cooperation (Lestari, 2021). In this context, researchers explore how capitalist logic displaces the collective and ethical spirit that underpins Islamic finance.

To maintain validity and reliability, this study employed conceptual triangulation, which tested the consistency of ideas from various classical and contemporary sources (Patton, 1999). Additionally, peer debriefing with academics and practitioners in Islamic economics was conducted to ensure the readability, coherence, and relevance of the findings to real-world issues facing Islamic banking. This process is also crucial for maintaining objectivity in interpreting texts and phenomena.

4. Result and Discussion

4.1. The Convergence of Corporate Governance and Deontological Compliance in Islamic Banking

The fundamental weakness in the implementation of murabahah contracts, which culminates in the phenomenon of fictitious ownership, is essentially a manifestation of corporate governance failure. From the perspective of agency theory, as elucidated by Faozan et al. (2023), institutional agents will only operate optimally when supervision and monitoring mechanisms are rigorously enforced. In practice, however, Islamic banks frequently position themselves purely as financiers, neglecting the real-time monitoring of transactions and underlying projects. The concept of Good Corporate Governance (GCG) fundamentally entails the structures and processes designed to ensure institutional accountability and transparency to all stakeholders (Faozan et al., 2023). When this managerial oversight is absent, and banks merely take refuge behind legal formalities via the wakalah instrument, an asymmetry in governance architecture emerges. This condition provides ample space for capitalist rationality to operate fully under the guise of artificial Sharia compliance.

Furthermore, the effectiveness of GCG within the Islamic banking ecosystem inherently relies on the optimal execution of the Sharia Supervisory Board's (SSB) duties, alongside the substantive enforcement of Islamic principles throughout all operational stages (Faozan et al., 2023). Unfortunately, field assessments of corporate governance dimensions frequently remain trapped in mere administrative compliance. Faozan et al. (2023) critically emphasize that banking evaluations must transcend formal procedural aspects to ascertain the actual implementation of governance. The demoralization of contracts such as the normalization of fictitious asset ownership occurs due to an internal system that fails to reconcile profit-oriented goals with the ethical substance of Islamic economics. Therefore, the neglect of direct asset monitoring is not merely a technical oversight but rather a structural failure of corporate governance mechanisms in curbing the tide of Shariah-compliant capitalism.

A primary critique leveled against contemporary Islamic banking practices centers on the isomorphic tendency of its products to mirror conventional financial instruments. This convergence stems from a product structuring paradigm that prioritizes rigid legal formalism while systematically marginalizing the ethical and philosophical dimensions intrinsic to Islamic finance. For instance, the murabahah contract traditionally conceptualized as a cost-plus-profit sale has achieved overwhelming dominance within the financing portfolios of Indonesian Islamic banks. However, its empirical application frequently amounts to a mere nominal substitution—replacing the term "interest" with "margin" devoid of any substantive transformation in the underlying transactional architecture (Lestari, 2021; Usmani, 2002). Such formalistic convergence not only signifies the erosion of the philosophical and spiritual ethos of Islamic financial contracts but also underscores the critical imperative to delineate between superficial Sharia compliance (the form) and the realization of its teleological objectives (the spirit of Sharia).

In philosophical hermeneutics, it is important to reinterpret the fundamental meanings of the Islamic economic system, such as usury, justice, and falah. Textual interpretations of the prohibition of usury without a thorough understanding of its philosophical meaning can lead to practices that formally avoid usury but remain trapped in exploitative relationships. For example, the fixed margin in murabahah, which resembles a fixed interest system, indicates that only the outward form has changed, while the power and domination relations between banks and customers remain unfair (Asutay, 2007). Therefore, hermeneutics regarding the meaning of usury must emphasize the relationship of justice and social responsibility as the operational basis of Islamic financial institutions.

Broadly speaking, ethics in Islamic finance should be the primary operational foundation, not merely a complementary aspect. However, in reality, ethical values such as justice ('adl), trustworthiness, and blessings (barakah) have been reduced to technocratic instruments within the Sharia compliance system. The Sharia compliance standards set by the National Sharia Council (DSN-MUI), for example, focus more on the conformity of contracts than on assessing the social and ethical impact of the product (Karim, 2020). This demonstrates what Zaman (2015) calls the "demoralization" of Islamic finance. Therefore, to revitalize Islamic ethics in banking, a transformational approach, rather than merely legal and formal, is necessary.

From an ideologically critical perspective, Islamic banking is now in danger of becoming an instrument of the global capitalist system. This occurs because Islamic banking tends to pursue efficiency, profitability, and capital growth, similar to conventional banks, rather than creating a fair and values-based alternative system. Asutay (2012) calls this phenomenon "Shariah-compliant capitalism," where Islamic principles are used only to legitimize economic activities that are inherently capitalist. This financial mimicry of conventional banks results in this system lacking transformational power for society. Without ideological awareness and epistemological critique, Islamic banking will simply become an "Islamic copy" of a conventional system rooted in the logic of exclusion and exploitation.

The lack of bank involvement in business management under musyarakah contracts demonstrates the loss of a true partnership in Islamic banking. In practice, musyarakah contracts often become merely sharia-compliant loans, with banks acting solely as capital providers without any real contribution to project management or oversight. In her research, Lestari (2021) demonstrated that the weak monitoring and evaluation systems of Islamic banks regarding customer businesses mean that musyarakah contracts are not significantly different from conventional loans, and in some cases, even more burdensome for customers. This confirms that the transformation of Islamic finance cannot be achieved simply by changing terms and contracts, but must address the structure of social and economic relations between institutions and society.

The implementation of murabahah in Islamic banking practices demonstrates technical deviations that potentially violate the basic principles of Islamic sales contracts. One significant deviation is the use of the Wakalah contract in the procurement process, which makes the customer act as the bank's agent in purchasing goods on behalf of the bank itself. According to Nasution (2021), this condition results in ownership of goods by the bank becoming fictitious or merely a formality. Thus, the murabahah contract no longer reflects a real sale and purchase transaction, but rather resembles a regular credit agreement with a profit margin. Other deviations also occur in the milkiyah (ownership of goods before sale), rasul mal ma'lum (the cost price must be known), and errors in the contract's placement. These practices indicate a loss of contract integrity in the ethical and spiritual dimensions, where the values of honesty and responsibility are replaced by procedural efficiency mechanisms that remain grounded in capitalist logic.

Findings from Islamic banking practices in Indonesia demonstrate that the current Islamic financial system is experiencing a crisis of meaning, losing the spiritual and ethical "spirit" that should be its primary foundation. When products like murabahah and musharakah become merely formalistic instruments resembling conventional products, values such as justice, blessings, and falah lose their substantive role. This critique is reinforced by Lestari (2021) and Nasution (2021), who demonstrate how the implementation of Islamic contracts is carried out symbolically without substantial control, as well as by Choudhury (2014) and Asutay (2007), who underscore the dominance of capitalist epistemology in the modern Islamic financial architecture. Therefore, a radical effort is needed to reinterpret (hermeneutically) the basic concepts of Islamic finance using a critical philosophical approach, so that the Islamic banking system is not only formally compliant but also reflects the true transcendental and socio-economic dimensions of Islam.

4.2. Reducing the Concept of Falah and Maqashid to Profit Targets

In Islamic economic theory, indicators of the success of Islamic financial institutions should refer to the realization of the maqasid al-shari'ah (obligatory values of sharia), such as the protection of religion, life, intellect, descendants, and property (Chapra, 2000). However, in Islamic banking practice in Indonesia, maqasid is not used as a primary indicator in evaluating institutional performance. Islamic banks' annual reports generally only present financial ratios such as Return on Assets (ROA), Net Profit Margin (NPM), and Non-Performing Financing (NPF), without including social indicators or community welfare (OJK, 2023). This indicates that maqasid values are more normative in discourse, but not yet embedded in the bank's strategic assessment structure.

The concept of falah in Islamic economics refers to happiness in this world and the hereafter, encompassing spiritual and social well-being, not merely material well-being (Nasr, 1994). However, in practice, falah has been reduced to a form of profit that is "halal" according to Islamic jurisprudence, while remaining oriented toward profit maximization. An empirical study by Hosen and Rahmawati (2020) shows that 86% of Islamic banks' growth strategies focus on expanding productive financing and increasing annual profitability, rather than enhancing social impact. As a result, Falah has shifted to a symbolic slogan, rather than a substantive vision.

The dominance of murabahah financing in Islamic banking portfolios is concrete evidence that profit-oriented financing dominates bank operations. Financial Services Authority (OJK) data (2023) indicates that approximately 70.82% of total Islamic bank financing still uses murabahah contracts, which are economically more similar to fixed-interest credit schemes in conventional banks. Meanwhile, mudharabah and musyarakah contracts, which reflect the Islamic spirit of justice and partnership, account for only 7.3% and 3.5% of total financing, respectively. This phenomenon demonstrates that fixed-profit mechanisms are preferred over equity-based and risk-shared approaches.

Several academics and institutions have attempted to develop a maqasid index as a measure of the socio-economic performance of Islamic financial institutions. For example, the index developed by Mohammed and Taib (2015) assesses banks based on five maqasid dimensions. However, an empirical study by Andriyani and Firdaus (2022) showed that of 12 Islamic banks in Indonesia, only one explicitly included socio-humanitarian indicators in its annual report. This indicates that adherence to maqasid has not yet become a formal instrument for performance evaluation at the industry level.

The conditions above indicate a process of commodification of spirituality in Islamic banking practices, where noble values such as maqasid and falah are used as marketing jargon, but do not form the structural foundation of bank operations. The emphasis on legal compliance in the form of halal profit is evidence that this system represents capitalism disguised as symbolic Islamic values rather than an alternative system that truly offers values-based economic transformation. Thus, a philosophical evaluation of this system is urgently needed.

4.3. Philosophical and Social Consequences

4.3.1 Loss of Public Trust

The crisis of public trust in Islamic banking is becoming increasingly apparent as product practices lose their meaning and Islamic values. When the sharia narrative is used solely as a "halal label" devoid of any underlying values, customers reject banks' moral claims and return to conventional banks or other financial alternatives. Research by Rini & Huda (2020) noted that 64% of respondents felt Islamic banks differed only in name. Meanwhile, OJK data (2023) shows that customer retention has declined by 5% in the past two years. Islamic banks must restore trust by integrating maqasid (obligatory principles) into operational practices and value communication, not just marketing.

Adherence to the maqasid (Islamic values) must be evident in a concrete commitment to community development. When social contributions only account for <1% of net profit, the social mission is deemed irrelevant and not implemented. Furthermore, a research report by Ascarya & Yumanita (2022) shows that CSR accounts for only <1% of annual profits for Islamic banks. Therefore, without a significant allocation for social values, Islamic banking loses its legitimacy as an agent of change for the community.

Furthermore, Al-Ghazali's perspective demonstrates that public trust is closely linked to the alignment of action and prayer (zikir vs. dhikr); that is, between words and moral actions. If actions are not accompanied by spiritual orientation and community empowerment, then moral claims become empty accusations. Al-Ghazali emphasized that economics is an act of worship (fiqhmu al-amal) that must reflect transcendental intentions and social benefits. Therefore, integrating spiritual values into institutional structures is a crucial step in restoring public faith in Islamic banking.

4.3.2 Islamic Banking as Capitalism in Islamic Clothing

Islamic banking currently tends to disguise capitalist products under sharia-compliant packaging. Contracts such as murabahah have become dominant not because of public demand, but rather because of adaptation to market logic. The Financial Services Authority (OJK) (2023) noted that murabahah accounts for 65.5% of Islamic financing, a structural similarity to high-interest loans. Dusuki (2008) asserts that this represents a form of "Islamic labeling" of capitalism. This dominance indicates that Islamic banks have been co-opted by their ideology and hinder the transformation of Islamic-based finance.

Ibn Khaldun emphasized the importance of asabiyyah (ethical principle) and justice as the foundation for sustainable economic development. However, the modern Islamic banking system neglects the values of togetherness and distributive justice in the pursuit of profit alone. In the Muqaddimah (Muqaddimah), Ibn Khaldun emphasized that the accumulation of wealth without social justice will lead to social and economic collapse. Islamic banks must return to the principles of distributive justice and solidarity, not solely profit-oriented.

The views of Ibn Khaldun and Al-Ghazali imply that Islamic banking needs to integrate spirituality into its operations. When the economy is run without ethical awareness, such as transaction etiquette and maslahah, its spirituality evaporates. Al-Ghazali warned of the dangers of lust and greed in transactions; supervision (hisbah) is necessary as an ethical mechanism. Ibn Khaldun believes the state needs to protect the welfare of the people, not just serve corporations. Islamic banks must carry out internal and external hisbah functions and prioritize maslahah and mexicana asabiyyah.

If Islamic banking continues to operate as capitalism disguised as religion, the system will lose its philosophical soul and identity. Spiritual space and the values of maqashid will be replaced by mere investor calculations. Nasr (2006) warns that a secular economy devoid of transcendental values leads to moral crisis and social imbalance. Therefore, total reflection and reform are needed: a return to economic monotheism and the revivification of the spirit of maqashid in every product design, policy, and evaluation framework of Islamic banks.

4.4. Loss of the Spirit as an Ontological Crisis

The findings in this chapter indicate that Islamic banking in Indonesia is experiencing an ontological crisis: a crisis over the very basis and purpose of its existence as an Islamic financial system. When the forms of sharia are maintained, but their substance and transcendent meaning are lost, the system becomes merely a replica of capitalism labeled halal. The dominance of murabahah contracts, which resemble conventional credit, the absence of maqashid (objectives of Islamic principles) in institutional KPIs, and the decline in public trust indicate this void of values (Lestari, 2018; Nasution, 2021; OJK, 2023). Therefore, this crisis is not merely a technical issue, but a fundamental one concerning the direction and spirit of the Islamic economic system itself.

The reduction of maqasid to mere tools of business legitimacy demonstrates that falah is no longer positioned as the normative and spiritual goal of Islamic economics. Instead of building social justice and sustainability, Islamic banks are trapped in a profit-making logic similar to the capitalist system. The fact that 65% of financing revolves solely around the murabahah scheme, along with their minimal role in social development (CSR <1% of profits), reinforces this suspicion (Ascarya & Yumanita, 2022). Thus, Islamic banks today are more closely identified as instruments of capitalist efficiency than agents of social transformation.

From an Islamic philosophical perspective, this crisis illustrates the loss of the spiritual dimension (al-ruh) in modern economic practices, which should be based on monotheism, justice, and maslahah (beneficial principle). Both Al-Ghazali and Ibn Khaldun emphasized the importance of spiritual values, social justice, and ethical responsibility in economic activity. Al-Ghazali warned that transactions without transcendental intentions would be empty worship, while Ibn Khaldun argued that the accumulation of wealth without social equity would give rise to structural inequality and social collapse. Therefore, the spirit of the Islamic economic system can only be revived if spirituality, maqasid (obligatory good deeds), and justice are restored to the heart of the Islamic financial system.

These findings confirm that the Islamic banking project requires a profound philosophical and epistemological reorientation, not merely technocratic reform. Without a strong ontological and ethical vision, the Islamic financial system will continue to be mired in formalism and lose its moral authority within society. As Nasr (2006) warns, an economy separated from the spiritual dimension will lead to a void of values and a civilizational crisis. Therefore, a new awareness is needed among practitioners, academics, and regulators to develop Islamic banking as a spiritual institution, not merely an Islamic business entity.

5. Conclusions, Limitations, and Implications

5.1 Conclusion

This study reveals that Islamic banking in Indonesia has undergone a significant shift in meaning, from normative idealism to technocratic reality. Despite formally using Islamic terminology and contracts, the substance of Islamic finance in today's banking practices lacks the ethical and spiritual depth that should underpin its foundation. The dominance of murabahah contracts, wakalah practices that resemble conventional transactions, and the minimal social role of Islamic banks demonstrate a form devoid of substance (Lestari, 2021; Nasution, 2021). Therefore, it can be concluded that the loss of "spirit" in Islamic banking is not merely a technical issue, but rather an ontological and epistemological crisis in the contemporary Islamic financial system.

The reduction of fundamental concepts such as falah (lawful actions) and maqasid al-shariah (obligatory actions) to profit instruments signals a crisis of value orientation in the design and performance evaluation of Islamic banking. The moral and socioeconomic objectives of Islam have been replaced by the logic of profitability and legal-formal compliance, dryly rooted in the spirit of social transformation. Indicators of Islamic banking success are still based on Return on Assets (ROA), profit growth, and efficiency, without addressing the dimensions of justice, empowerment, or distribution (Ascarya & Yumanita, 2022). This indicates that institutionally implemented Islamic economics has shifted to a system of halal capitalism, rather than an ethical-spiritual economy.

From the perspective of classical and contemporary Islamic philosophy, these findings confirm that economic institutions that lack the spirit of justice, social responsibility, and transcendental values will experience a void of meaning. Philosophers such as Al-Farabi, Al-Ghazali, and Ibn Khaldun emphasized the importance of ethical and social dimensions as the basis for economic and societal sustainability. Ibn Khaldun, for example, emphasized that the strength of the state and economy depends on justice and the distribution of wealth, not simply the accumulation of capital (Ibn Khaldun, 2015). Therefore, Islamic banking reform must be directed at restoring spiritual and social values as the primary foundation of the system.

5.2 Recommendations

A paradigm shift is needed in the evaluation system and policies of Islamic banking, from compliance-oriented to value-driven. Performance evaluation of Islamic financial institutions should not only focus on profitability, but also on the integration of maqasid (obligatory principles), ethics, and social contribution. Initiatives such as Maqasid-based Performance Evaluation (MPE) have begun to be developed in several countries and could be adopted more widely (Mohammed et al., 2008). Bank Indonesia and the Financial Services Authority (OJK) need to formulate maqasid-based Islamic bank performance indicators and align them with national fiscal and social policies.

Strengthening the epistemology of Islamic economics in academic and industrial settings is a crucial agenda to avoid the fragmentation of knowledge and practice. Without a solid philosophical foundation, Islamic economics is vulnerable to being reduced to a mere business label, rather than a system for civilizational change. The study of Islamic financial philosophy, critical curriculum development, and multidisciplinary research must become mainstream in Islamic economics education (Choudhury, 2007; Asutay, 2012). Higher education institutions and fatwa institutions need to collaborate to reformulate the epistemology of Islamic finance, rooted in monotheism and justice.

This research proposes that the revitalization of Islamic banking must begin with an acknowledgement of the loss of "spirit" within the system. "Spirit" here refers to the divine, ethical, and social dimensions that are at the core of Islamic economics as part of the prophetic mission. Without this spirit, the Islamic banking system will simply imitate capitalism, lose its moral authority, and drift further away from the goal of *falah*. Therefore, a collective movement is needed to revitalize Islamic economic philosophy, not merely as a science, but as a way of life.

5.3 Research Limitations

This research is structured using a critical-constructive philosophical approach, emphasizing the interpretation and reexamination of fundamental concepts in the contemporary Islamic financial system, particularly in Islamic banking practices in Indonesia. This approach provides ample scope for reflection, but methodologically, it has limitations in terms of empirical verification through field observations or in-depth interviews. Therefore, the analysis is conceptual in nature and does not yet address the actual operational dynamics of various Islamic financial institutions at the micro level.

Furthermore, limitations also arise from the geographic and contextual scope of the focus on the Islamic banking system in Indonesia. Although Indonesia has the largest Muslim population and a fairly developed Islamic financial system, the philosophical reflections in this article cannot necessarily be generalized to other countries with different economic, social, and regulatory structures. Therefore, interpretation of these findings requires consideration of local factors and unique socio-historical conditions.

On the other hand, although this study has attempted to triangulate literature from classical and contemporary texts, there remains the potential for interpretive bias in the hermeneutical process. Interpretations of the works of figures such as al-Ghazali, Ibn Khaldun, and Nasr and Choudhury are conducted within the confines of the author's epistemic framework. Awareness of the limits of this subjectivity is an essential part of a critical philosophical approach, which encourages openness to alternative readings and expanded analysis in subsequent research stages.

5.4 Theoretical and Practical Implications

The findings of this study have several important implications, both theoretically and practically. Theoretically, this study emphasizes the need to reposition the Islamic economic paradigm from a formal-legal approach to a substantive-philosophical approach rooted in the values of *tawhid, maqasid*, and *falah*. This implication challenges the overly technocratic model of Islamic financial development and encourages a re-positioning of Islamic economic epistemology within a distinctly Islamic ethical and ontological framework. This contributes to the contemporary literature on Islamic economic philosophy, which is still dominated by normative and positive legal approaches.

Practically, this article encourages stakeholders, including regulators, academics, and Islamic banking practitioners, to evaluate the success indicators of Islamic financial institutions. A solely profitability-based approach to success has proven insufficient to represent the spirit of maqasid (obligatory good) and the value of falah, the ultimate goal of Islamic economics. Therefore, it is necessary to develop a maqasid-based evaluation and accountability system that encompasses the dimensions of justice, sustainability, and blessings, rather than simply efficiency and administrative compliance.

Furthermore, at the higher education level, these findings also imply the importance of integrating Islamic philosophy into Islamic finance and banking curricula. Islamic economics education needs to be equipped with a deep understanding of the value framework and history of Islamic thought, so that graduates become not only sharia technocrats but also critical thinkers capable of building a transformative and ethical economic system.

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