

Analysis of Islamic Law on Bank Interest: Comparison of the Concepts of Usury and Modern Banking

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<p>Article History Received : 2021-09-02 Revised: 2021-09-10 Published: 2021-09-30</p> <p>Keywords: <i>Bank Interest; Usury; Muamalah Jurisprudence; Modern Banking; Islamic Law</i></p>	<p>This study aims to analyze bank interest from a muamalah jurisprudence perspective by examining conceptual aspects, its application in the modern banking system, its comparison with usury, and the views of classical and contemporary Islamic scholars. The method used is normative legal research with a conceptual and analytical approach to Islamic legal sources and related literature. The results of the study indicate that bank interest in the conventional banking system functions as a return on deposits and a fee for loans, which are legally permissible. However, from a classical Islamic jurisprudence perspective, bank interest is viewed as identical to usury, which is prohibited because it contains additional elements without fair compensation. Meanwhile, contemporary Islamic scholars have more varied views, with some continuing to prohibit bank interest, while others permit it under certain conditions based on considerations of emergency and public interest. These differing views demonstrate the dynamics of <i>ijtihad</i> in responding to developments in the modern economic system. Therefore, a comprehensive understanding and development of the Islamic financial system as an alternative that aligns with Islamic principles is necessary.</p>

I. INTRODUCTION

The increasingly rapid development of the global economic system has brought significant changes to various aspects of life, including the financial and banking sectors. One of the main instruments in the conventional banking system is the use of interest as a profit-generating mechanism. Bank interest serves as a return on funds deposited by customers and as a fee paid by borrowers. In practice, the interest system has become an integral part of modern economic activity and is widely used in various financial transactions, both at the individual and corporate level. In fact, under positive law in Indonesia, the practice of bank interest is recognized as a valid part of loan agreements as long as they comply with applicable provisions.

However, from an Islamic legal perspective, the existence of bank interest remains a highly controversial issue and continues to be debated to this day. This is due to the shared characteristics between bank interest and usury, namely the addition of the principal debt charged to the borrower. In Islamic teachings, usury is expressly prohibited because it is considered to contain

elements of injustice, exploitation, and harm to one party. This prohibition is not only normative but also has strong moral and social dimensions, namely to maintain balance and justice in the economic system. Therefore, the majority of classical scholars believe that any addition in a loan transaction that is not based on productive activity falls into the category of usury and is prohibited.

However, with the development of an increasingly complex modern economic system, new perspectives have emerged from contemporary scholars who are attempting to re-examine the concept of bank interest with a more contextual approach. Some scholars argue that bank interest cannot be completely equated with usury, as it was known in classical times. They argue that interest in the modern banking system serves specific functions, such as compensating for inflation, credit risk, and the operational costs of financial institutions. Furthermore, the interest system is also considered a crucial instrument in maintaining economic stability and encouraging growth through investment and credit mechanisms. Therefore, under certain

circumstances, some scholars tolerate the practice of bank interest, taking into account the principles of necessity (*ḍarūrah*) and benefit (*maṣlaḥah*).

The differences in views between classical and contemporary scholars demonstrate the dynamic of *ijtihād* in Islamic law, which continually strives to adapt to changing times. On the one hand, there is an effort to maintain the purity of Islamic teachings by rejecting all practices containing elements of usury. On the other hand, there is also a need to provide practical solutions to the unavoidable realities of the modern economy. This makes the study of bank interest not only theoretically relevant but also has broad practical implications for the lives of Muslims.

Furthermore, the issue of bank interest is also closely related to social and economic aspects. An uncontrolled interest system has the potential to cause economic inequality, widen the gap between the rich and the poor, and create detrimental financial dependency. Conversely, to a certain extent, the interest system can also play a role in driving economic growth by providing access to financing for the public. Therefore, a comprehensive approach is needed to examine bank interest, not only from a legal perspective but also from an economic and social perspective.

In this context, *muamalah* jurisprudence plays a crucial role as a normative framework for assessing modern economic practices, including the banking system. *Fiqh* serves not only as a tool for determining what is permissible (*halal*) and what is forbidden (*haram*), but also as an instrument for realizing justice, welfare, and balance in economic life. Therefore, studying bank interest from a *muamalah* jurisprudence perspective is crucial for providing Muslims with a comprehensive understanding of contemporary economic dynamics.

Based on this background, this study aims to examine bank interest in depth from the perspective of Islamic jurisprudence (*fiqh*) in *muamalah*. This study covers the definition of bank interest, its application in the modern banking system, its differences from usury (*riba*), the views of classical and contemporary scholars, and various issues that arise in contemporary *fiqh* studies. Therefore, it is hoped that this research will make a scientific contribution to the development of Islamic legal studies and serve as a reference for understanding and responding to

modern banking practices more wisely and in accordance with sharia principles.

II. RESEARCH METHODS

This research is a type of normative legal research (library research), which is conducted by reviewing and analyzing library materials related to the problem being studied. The focus of this research is the study of *muamalah* jurisprudence regarding bank interest, so the approach used emphasizes the analysis of Islamic legal norms and concepts developed in classical and contemporary literature.

The approaches used in this research are conceptual and comparative. The conceptual approach is used to understand the meaning of bank interest, usury, and the basic principles of *muamalah* jurisprudence. Meanwhile, the comparative approach is used to compare the views of classical and contemporary scholars regarding the law of bank interest, so that similarities and differences can be systematically identified.

The data sources in this study consist of primary and secondary legal materials. Primary legal materials include the Quran and hadith relating to the prohibition of usury. Secondary legal materials include books, scientific journals, and other literature relevant to the topic of bank interest and *muamalah* jurisprudence, from both conventional and Islamic economic perspectives.

Data collection techniques were conducted through literature studies by identifying, reviewing, and categorizing various literature related to the research topic. Furthermore, the data analysis technique used was qualitative analysis with a descriptive-analytical method, which systematically presents the data and then analyzes it to gain a comprehensive understanding of the problem being studied.

Through this method, it is hoped that the research can provide a clear and in-depth picture of bank interest from a *fiqh* perspective, and produce conclusions that are relevant to modern economic developments and the needs of society.

III. RESULTS AND DISCUSSION

A. Research result

Based on the results of a literature review, it was found that bank interest in the conventional banking system is the primary mechanism used in fundraising and disbursement activities. Bank

interest serves as a return for depositors and as a fee to be paid by borrowers. The interest rate is determined based on bank policy, risk level, and economic conditions such as inflation and monetary stability. In modern banking practices, interest is a crucial instrument in maintaining the sustainability of bank operations through the difference between deposit and loan interest rates. This system contributes to economic growth, particularly in providing access to financing. However, on the other hand, the interest system also has the potential to create economic inequality and financial burdens for customers, especially when the interest rate applied is relatively high. From a muamalah fiqh perspective, the majority of classical scholars believe that bank interest falls into the category of usury (riba), which is prohibited. This is based on the principle that any addition to a debt transaction without productive activity is a form of injustice and contrary to Islamic teachings. Therefore, normatively, bank interest is considered inconsistent with sharia principles.

However, studies by contemporary Islamic scholars reveal differing views. Some scholars maintain an absolute prohibition on bank interest, while others allow it under certain circumstances, such as emergencies or for the public good. They also distinguish between exploitative interest and reasonable, non-burdensome interest. Furthermore, research shows that there is debate regarding the difference between bank interest and usury. Some consider the two identical because they both involve an addition to the principal, while others see differences in context, function, and application within the modern economic system.

B. Discussion

Bank interest in the conventional banking system is the primary instrument used to regulate the relationship between banks and customers, both as depositors and borrowers. Conceptually, bank interest is defined as the reward provided by banks to customers for deposits and as a fee paid by customers for loans. Therefore, bank interest serves two primary functions: as a source of income for banks and as an incentive for customers to save their funds (Semaun, 2016). In practice, the amount of interest is influenced by various factors such as monetary policy, inflation rates, and the credit risk faced by banks (Rahim, 2021).

In the modern banking system, interest is not merely an economic mechanism but also part of a complex global financial system. Conventional banks use the interest system as their operational basis to generate profits through the difference between deposit and loan interest rates. This system allows banks to continue operating and growing, but on the other hand, it also raises a number of issues, particularly related to the distribution of economic justice. In practice, the interest system tends to favor those with substantial capital and has the potential to create social inequality (Usman, 2014).

From the perspective of Islamic jurisprudence (fiqh) in transactions, bank interest is often associated with the concept of usury (riba), which is expressly prohibited in Islam. Riba is understood as an addition to the principal amount of a debt that is not based on productive activity or fair exchange. Therefore, the majority of classical scholars agree that any addition to a debt transaction falls under the category of usury and is prohibited. This view is based on the verses of the Quran and Hadith that absolutely prohibit the practice of usury, regardless of the size of the addition (Zuhri, 2018).

However, in contemporary Islamic jurisprudence studies, differing views have emerged regarding the status of bank interest. Some contemporary scholars maintain the classical view that prohibits bank interest because it is considered synonymous with usury. On the other hand, there are also scholars who attempt to reinterpretation of the concept of usury (riba) taking into account the modern economic context. They argue that bank interest is not always synonymous with usury, especially if it is not exploitative and remains within reasonable limits. Under certain conditions, such as urgent needs or limited access to Islamic financial institutions, the use of bank interest can be tolerated based on the principles of emergency and public welfare (Basir et al., 2023). Furthermore, the distinction between bank interest and usury is also an important focus of this study. Bank interest in the modern system is viewed as an economic instrument with specific functions, such as compensation for risk and inflation. Meanwhile, usury emphasizes the aspects of injustice and exploitation in financial transactions. However, this distinction remains debated among scholars,

as both involve additions to the principal debt (Khan, 2020).

The issue of bank interest in contemporary Islamic jurisprudence (fiqh) is not only related to legal aspects but also involves social and economic dimensions. The interest system widely implemented in conventional banking is considered to have negative impacts, such as economic inequality, exploitation of the vulnerable, and dependence on a debt-based financial system. On the other hand, this system also contributes to economic growth by providing access to credit for the public. Therefore, a more comprehensive and contextual approach is needed to understand bank interest to produce solutions that are fair and in accordance with Sharia principles.

As an alternative, the Islamic banking system offers a different concept by replacing interest with profit-sharing, buying and selling, and leasing mechanisms that emphasize the principles of justice and balance. This system is expected to provide a solution to the problems posed by the interest system, while also providing space for Muslims to engage in economic activities in accordance with religious teachings (Usman, 2012).

Thus, the results of this study demonstrate that bank interest is a complex and multidimensional issue in muamalah jurisprudence. The differing views between classical and contemporary scholars demonstrate that Islamic law has flexibility in responding to changing times. Therefore, a deep understanding and a wise approach are required to address the practice of bank interest amidst the dynamics of the modern economy.

IV. CONCLUSION AND SUGGESTIONS

A. Conclusion

Based on the results of the study, it can be concluded that bank interest is a primary instrument in the conventional banking system, serving as a return on deposits and a fee for loans. From a positive legal perspective, bank interest is considered legitimate and an integral part of modern economic mechanisms. However, in the study of Islamic jurisprudence (fiqh muamalah), bank interest has sparked significant debate due to its similar characteristics to usury (riba), which is expressly prohibited in Islamic teachings.

The majority of classical scholars believe that bank interest falls under the category of usury (riba) because it involves an addition to the principal without any corresponding productive activity, making it haram (forbidden). Meanwhile, contemporary scholars demonstrate differing views, with some maintaining the absolute prohibition of bank interest, while others allow for tolerance under certain circumstances, taking into account both emergency and public interest. This difference demonstrates the flexibility of Islamic law, through ijthad, in responding to developments in the modern economic system.

Furthermore, the issue of bank interest is not only related to legal aspects but also has social and economic implications, such as the potential for inequality and financial burden on society. Therefore, a comprehensive understanding and a contextual approach are needed to address bank interest practices to ensure they remain in line with the principles of justice and welfare in Islam.

B. Suggestion

Based on these conclusions, it is recommended that studies on bank interest from a fiqh perspective continue to be developed with a more comprehensive and contextual approach, so that they can address modern economic challenges more relevantly. Academics are expected to be able to expand research by integrating normative and empirical approaches to obtain a more complete picture of banking practices in society.

Furthermore, more serious efforts are needed to develop and strengthen the Islamic financial system as an alternative that aligns with Islamic principles. Islamic financial institutions are expected to increase product innovation and service accessibility to compete with conventional banking. Furthermore, the public needs to be adequately educated about the difference between bank interest and usury (riba), enabling them to make wise economic decisions in accordance with Islamic values. Finally, policymakers are expected to support regulations that encourage the growth of a fairer, more transparent, and more beneficial financial system, thus creating a balance between the needs of a modern economy and the principles of Islamic law.

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