

FORMULATING THE IMPLEMENTATION OF MUQASAH IN MURABAHAH FINANCING IN INDONESIA'S ISLAMIC BANK

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Abstract

In Islamic banking in Indonesia, murabahah (contract of trading) is one of the most popular contracts to use in the financing products. In order to regulate this contract, Indonesia's Otoritas Jasa Keuangan (OJK) issued the Guidance on Murabahah Financing which comprehensively stipulate the rules in distributing the financing under the contract of murabahah. One of the stipulations in the Guidance governs the mandatory discount for the early-settled financing, later referred to as the muqasah. This research highlighted the potential impact of implementing the regulation in the Bright Bank, a listed sharia Bank which distributes majority of its financing under the contract of murabahah. Both quantitative and qualitative studies were conducted to understand the financial magnitude of the implementation of muqasah in the Bright Bank, to formulate the potential financial scheme (i.e. early-settlement fee) that will prevent further loss on the bank's profitability, and to understand the customers' perception on early financing settlement and the prospectively implemented surcharge. The solution offered in this writing is a policy-based strategy that is based on the research result. This research will contribute to be one of the early references for the further development of the strategy to better implement muqasah in the distribution of murabahah financing.

Keywords: *Islamic Bank, Sharia Compliance, Muqasah, Early Settlement*

INTRODUCTION

Indonesia's Financial Authority (Otoritas Jasa Keuangan, would be later referred to as the OJK) issued the official playbook or guidance in implementing murabahah contract (financing facility under the trading contract) for financing, namely Pedoman Produk Pembiayaan Murabahah Perbankan Syariah (OJK, 2023a). As the part of this guidance, OJK included the regulation of muqasah which is the margin revenue discount that a sharia bank should apply to the customers who want to settle (pay-off) their debt earlier than the contractual due date. It is notable that for the sharia banks that distribute murabahah financing, margin is the main source of business income. Applying this new regulation would be challenging for the sharia banks, especially those whose main financing products are distributed under murabahah contract.

Bright Bank (disguised company name from an actual sharia bank that operates in Indonesia), as one of the public sharia banks in Indonesia distributes sharia financing to its customers and makes this operational activity its main source of revenue and profit. As per November 2024, referring to its financial statement, financing under murabahah contract was Bright Bank's main business, contributing to 95% of its assets and 90% of its gross profit. That remarkable dependence to one type of sharia contract is potentially risky for Bright Bank, especially when it comes to the implementation of the above Pedoman Produk Pembiayaan Murabahah Perbankan Syariah. Since now Bright Bank is obliged to give the "mandatory discount" for the customers who are willing to settle the financing earlier than their contractual due date, its profit is at stake of being cut off.

The arrangement of muqasah in the new regulation is different with the one regulated in the fatwa from Indonesia's National Sharia Council (DSN-MUI) number 23/DSN-MUI/III/2002 (DSN-MUI, 2002). In that fatwa, muqasah is viewed as something that is not obligatory under the murabahah contract; the bank or financial institutions could opt for selectively giving the discount to their customers who settle their financing earlier. Meanwhile, the new OJK regulation obliges the sharia bank to administer the muqasah for every early-settled murabahah financing. The business issue arose from this particular distinction. As the bank that distributes majority of its financing under murabahah contract, Bright Bank will definitely suffer from financial potential loss from the muqasah implementation; the extent of the impact would later be discussed more comprehensively.

Based on the obligation for the Bright Bank (as one of the sharia banks in Indonesia) to implement the mandatory muqasah and their business tendency to protect the bank's main source of profitability, this research highlighted the magnitude of the financial impact the mandatory muqasah would cause to the Bank's current portfolio. The understanding about the size of the impact was later used to define the Bank's effort in designing the early-settlement fee and several internal rules in implementing mandatory muqasah. To later validate the magnitude and the acceptance of the initial strategies the bank would implement, the qualitative research was also performed to understand customers' perception on this matter. With those objectives covered, the initial formulation of the implementation strategy might help Bright Bank in being compliant to the regulation and still being financially sound by protecting their profitability.

LITERATURE REVIEW

1. Islamic Banking in Indonesia

According to Undang-undang Republik Indonesia Nomor 21 Tahun 2008, Islamic banking (perbankan syariah) is every matter that is related to Islamic banks (Bank Umum Syariah) and Islamic business unit (Unit Usaha Syariah), including its organization, business activities, and the process and methodology that are performed in order to run the business (Setneg RI, 2008). Islamic bank itself is defined as the bank whose business activities are based on the Islamic/sharia principles. There are two kinds of Islamic bank in Indonesia according to this act: the general Islamic bank, and rural Islamic bank.

Islamic banks are allowed to manage its own products and activities, as its way of doing business. As stipulated in POJK No. 24/POJK.03/2015, Islamic bank's products should at least fulfil the following criteria of being governed in the written internal policy and/or procedure within the risk management framework, licensed through OJK under standardized codification, and following the sharia principles that are supported by the Indonesia's National Sharia Council (DSN-MUI)'s fatwa or Sharia Supervisory Board (Dewan Pengawas Syariah)'s opinion. The products from Indonesia's Islamic banks are various; to name a few, some of the popular and legal products are funding products (giro, saving account), funding-investment products (time deposit under the contract of mudharabah or musyarakah), and financing products (under various contracts, including murabahah, salam, istishna, etc.).

Islamic or sharia banks are enlivening the overall banking industry in Indonesia, and it's signified by the various financial products they offer (Choiriyah et al., 2021). As per February 2024, there are 33 listed sharia banks in Indonesia, 19 of them are in the form of public sharia bank (Bank Umum Syariah (BUS)) and 14 of them are in the form of sharia business unit (Unit Usaha Syariah) (Saputri et al., 2024). In its operation, sharia bank must implement sharia contracts for the business, be it the funding business (equivalent to saving or fund deposit business in the conventional banks), financing business (equivalent to credit business in the conventional banks), pawn business, securities, etc.

Highlighting the financing product of the Indonesian Islamic bank, Herlina (2019) in her research in one of the state-owned sharia banks stated that murabahah is one of the most widely-used financing contracts in Indonesia's Islamic Bank. Concurring to that statement, OJK (2023b) through its 2022 Micro Finance Statistics displayed the constant dominance of murabahah as the contract and murabahah receivables as the financing instrument or product from 2018 to 2022 in Indonesia's sharia micro financing firms. In Indonesia's Micro Finance Institutions (MFI, non-bank firms), murabahah receivables grew from IDR 66.05 billion in 2018 to IDR 175.09 billion in 2022.

2. Murabahah as one of The Most Widely Used Sharia Contracts in Islamic Banking Industry

In principle, murabahah is the purchasing contract between the buyer and the seller while the seller is entitled to add transactional margin to the initial price of the goods sold under the agreed agreement (Prabowo, 2009). This contract is adopted by the financial institutions (amongst them are Indonesia's sharia banks) as one of the contracts or underlying for distributing the financing to their customers. Indonesia's Otoritas Jasa Keuangan (OJK) released the report informing that around 40% of financing in Indonesia's sharia banks were under the murabahah contract.

Nasution (2021) stated in her paper that this type of contract is favorable among the Indonesia's sharia banks, due to its nature that is more practical than the other contracts (such as mudharabah, muqasah, etc.) and is more certain in contributing to the bank's profitability. To support this statement, Sari et al. (2023) released their research concerning the correlation between the sharia contracts and bank's profitability, stating that murabahah contract (together with mudharabah) positively correlate to bank's profitability. They even suggest the Islamic banks to consider using this contract more often for a better profitability. Concerning the mass usage of murabahah contract in Indonesia, OJK together with DSN-MUI released the official playbook or guidance in implementing murabahah contract for financing (Pedoman Produk Pembiayaan Murabahah Perbankan Syariah) in 2023. Aside from the clearer

guidance on how to distribute the sharia financing using this contract, the playbook also governs the rule of giving the rather “mandatory discount” on the repayment amount for the customers who fully pays their financing earlier than the agreed due date. That discount explained above is referred to as the muqasah (Sup & Suhendi, 2022). Even though this discount is considered as a gift and even regulated as something that is not obligatory based on the fatwa from Indonesia’s National Sharia Council (DSN-MUI) number 23/DSN-MUI/III/2002, the implementation of this rule is highly encouraged lately by the OJK. The rather-mandatory nature of muqasah implementation will give more challenges for Indonesia’s sharia banks to protect its profitability, since the muqasah will be directly discounted from the margin income that is generated from the financing that is distributed under murabahah contract.

3. Implementation of Ujrah

Yazid in Lathifah and Kalam (2020) is originated from the Arabic term that refers to the fee or reward that follows the beneficial exchange of service or goods. To a greater extent, Lathifah and Kalam (2020) also stated that ujrah is applicable in various sharia contracts, such as ijarah, wakalah, kafalah, etc. Practically, in several sharia microfinancing, ujrah has become one of the highest revenue contributors. Following that theory and practice, the usage of the fee (ujrah) in the strategy of implementing muqasah might be one of the most financially effective and the easiest to communicate to the customers. Abubakar and Handayani (2021) stated that one of the principles of implementing ujrah in sharia transaction is that the ujrah should be clear and free from the manipulation. To translate this into the real practice, the implementation of ujrah should be based on the actual calculation of the service activity a bank does in performing the exchange of service of goods.

4. Relevant Previous Studies

Previously, there are several research concerning murabahah or even specifically muqasah on murabahah that had been conducted. Bahri (2022) conducted research about the impact of the financing contracts to the sharia banks’ profitability. His research showed that the distribution of the murabahah should be strictly managed to increase the bank’s profitability. Correlating to that research, Sari et al. (2023) stated that the combination murabahah and mudharabah contracts in distributing financing facility would result in the optimum profitability for the banks. In a more specific field of muqasah, Herlina (2019) advised the bank to further regulate the terms and conditions in administering non-mandatory muqasah. To date, there was no specific research on the implementation strategy for the mandatory muqasah under Pedoman Produk Pembiayaan Murabahah Perbankan Syariah yet. Because of that, even though it was uttered previously by Sup and Suhendi (2022) that there were several methods of applying muqasah under the fatwa number 23/DSN-MUI/III/2002, the previous researches still left the room for further research in finding the formula to protecting the profitability while applying the mandatory muqasah.

METHOD

The author mainly used the qualitative method in conducting the research, following the quantitative calculation of the stress testing using the primary data from Bright Bank. This research was conducted in three major phase which started with understanding the magnitude of the upcoming problem of muqasah implementation by designing “proxy” stress testing using the baseline, moderate, and worst scenario. Following that phase, the authors conducted qualitative in-depth interview to the purposive respondents who are the Bright Bank’s customers to better understand their perception on early settlement, mandatory muqasah and the potentially implemented early-settlement fee. The results from those two stages of research were then used to justify the business solution that is advised to the Bright Bank that is potentially leveraged by other sharia banks and financial institutions in Indonesia.

Data Collection Method

The writer collected the main data for the research through internal coordination with Bright Bank’s data owner and custodian. The primary data that is collected is the data of active financing during the period of the first quarter of 2024 and the first quarter of 2025. This data will provide the short-period population the author will examine and compare to observe for the trend. Using that data as the base, the authors collected the information of the financings that were early-settled during the period of the first quarter of 2024 and the first quarter of 2025. This data will provide the picture of possible impact of the muqasah implementation in Bright Bank. To support the calculation, the authors also collected the data about the remaining number(s) of financing instalment when the customers committed early settlement. The time the customer pays-off their financing decides the amount of the discount the bank will have to provide, hence the differences in the potential loss of the bank’s profitability.

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In doing the in-depth interview (IDI), the author purposively conducted the process to four types of customers as follows:

Table 1. Respondents of the interviews

Group	Customer category	Number of respondents	Justification
1	Active group-financing customers with good financing quality (DPD = 0-30) with the history of early settlement	2	Understanding their perception of <i>muqasah</i> , early settlement surcharge, the impact on their financings, and the force of group lending in shaping their perception.
2	Active group-financing customers with good financing quality (DPD = 0-30) with no history of early settlement	2	
3	Active individual financing customers with good financing quality (DPD = 0-30) with the history of early settlement	2	Understanding their perception of <i>muqasah</i> , early settlement surcharge, the impact on their financings, without the force of group lending in shaping their perception.
4	Active individual financing customers with good financing quality (DPD = 0-30) with the history of early settlement	2	

In order to gather the customer perspective on the upcoming implementation of *muqasah* and its potential strategy mix, the author will conduct the semi-structured in-depth interview with the questions concerning the customer profile, customer's current and/or previous financing or financing facility, perception about the early settlement in relation to their business and financing needs, perception on mandatory *muqasah*, and the perception on the potentially implemented early-settlement fee and internal rules in applying for the early settlement (a more detailed explanation about the group of questions is provided in the Appendix).

Data Analysis

To start the set of analyses, the authors designed the proxy generation to understand the magnitude of the risk exposure of upcoming *muqasah* implementation in Bright Bank. Creating the matrix from the data of existing active financing and active customer in the first semester of 2024 and compare it with the similar first quarter of 2025. The matrix specifically defined the numbers of the early settled financings within those two compared periods of time. The approximated magnitude was then drawn using the average financing size, average monthly numbers of early settlement, and the average range between the early settlement with the initial financing due date.

Table 2. Designing the proximation

Step	Explanation	Key Data & Analysis	Justification
1	Collecting the actual disbursement and actual early settlement data from January through June.	<p>Financing disbursement data:</p> <ul style="list-style-type: none"> Product: ultramicro-finance financing Disbursement period: January 1 to June 30 Financing size & quality: All ticket size and financing quality. <p>Early settlement data:</p> <ul style="list-style-type: none"> Product: ultramicro-finance financing Disbursement period: N/A Settlement date: January 1 to June 30 and it should be earlier than the initial due date 	<p>The usage of the data from the first quarter in 2024 and 2025 was closely related to the reinforcing phase of the regulation.</p> <p>Bright Bank offers several options of financing tenor to their customers, some of them exceed one-year period. Because of this product nature, the open date of the financing that is settled early does not have to be on the same year as its settlement date.</p>

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Step	Explanation	Key Data & Analysis	Justification
		<ul style="list-style-type: none"> Financing size & quality: All ticket size and financing quality. 	
2	Calculate the average number of monthly numbers of accounts that are settled early and the average amount of financing size that is being settled early.	<p>Average number of monthly numbers of accounts that are settled early:</p> $\frac{\sum \text{monthly early settlement}}{6}$ <p>Average amount of financing size that is settled early:</p> $\frac{\sum \text{ticket size from all observed data}}{\text{Numbers of observed data}}$	The mean (average number of monthly instalment and the average amount of ticket size that is settled early) will be used as the approximation to later calculate the possibility of each group of early settlement happen annually.
3	Group the early settlement data into three group of observation to better calculate the approximated magnitude of potential loss.	<p>Group 1: Number of financing accounts that were early-settled < 1 month prior to initial due date</p> <p>Group 2: Number of financing accounts that were early-settled 1-3 months prior to initial due date</p> <p>Group 3: Number of financing accounts that were early-settled > 3 months prior to initial due date</p>	The nature of <i>muqasah</i> calculation is based on the gap of the early settlement with the initial due date. It is paramount to observe the potential loss from each group of the early settlement as well as understand the aggregated financial impact.
4	Find the percentage of each financing tenor group from the observed data to be used as the proxy percentage for the financial impact approximated calculation.	$\frac{\text{No. of accounts from a group of loan tenor}}{\text{Number of observed data}}$	Understanding the composition of the financing tenor from the data of early settlement is important, considering that it can define the difference in the potential loss from <i>muqasah</i> calculation.
5	Find the composition of approximated monthly occurrence of early settlement from each group of observation based on the average number of monthly numbers of accounts that are settled early	$\frac{\text{No. of ccunts from a group of observation}}{\text{Number of observed data}}$	With this method, the author could approximate the monthly occurrence of early settlement with further consideration of whether the occurrence will fall into Group 1, 2, or 3 based on the average actual occurrence in the observed data.
5	Using the groups of observation, average amount of financing size, and the approximation percentage of the contribution of each financing tenor in every group of observation, calculate the potential loss following the <i>muqasah</i> formula below: 1. Calculate the <i>Qimah Ismiyyah</i> ("Selling Price" which is the financing plafond and the total margin that should be paid by the customer through instalments): $\text{Loan plafond} + \text{total expected margin}$ 2. Calculate <i>Tsaman Naqdy</i> (assumed agreed price in which the <i>murabahah</i> contract is done under hard-cash transaction): $\text{Loan plafond} + \text{first month's loan margin}$		This calculation method follows the <i>Pedoman Produk Pembiayaan Murabahah Perbankan Syariah</i> (OJK, 2022).

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Step	Explanation	Key Data & Analysis	Justification
	<p>3. Calculate the “paid-off financing-margin”: $\frac{(\text{Selling price} - \text{T saman Naqdy})}{\text{financing tenor (in month)}} \times \text{Paid - off tenor}$</p> <p>4. Calculate <i>Qimah Haliyyah</i> (the amount of money that should have been paid for early paid-off financing): $\text{T saman Naqdy} + \text{"Paid off loan margin"}$</p> <p>5. “Remaining amount to be paid”: $\text{Selling Price} - \text{Qimah Haliyyah}$</p> <p>6. Actual payment to be made: Compare the calculated remaining amount to be paid with the remaining financing principle:</p> <ul style="list-style-type: none"> • If the “remaining amount to be paid” is lower than the remaining financing principle, the customer should pay the remaining financing principle. In this case the Bank cannot claim the remaining financing margin. • If the “remaining amount to be paid” is higher than the remaining financing principle, the customer should pay the “remaining amount to be paid” based on the <i>muqasah</i> formulation. In this case the Bank gets full amount of remaining financing principle with addition of small or partial amount of the remaining financing margin. 		
6	Estimating the potential loss of the implementation of <i>muqasah</i>	Based on the calculation above, multiply the potential loss of the remaining financing margin with the respective number of financings in each group of tenor and group of observation, and annualize the calculation.	This method allows the author to estimate the annualized amount of potential loss the Bank will suffer from its inability to claim the remaining portion of financing margin from the early-settled financings.

Since the portfolio of Bright Bank that is consisted of financings with relatively small ticket size (ultramicro-financing) with the relatively uniformed financing period and rather big size of data (approximately 250,000 financing application in monthly basis), the proximation of the financing size and financing tenor is applicable to determine the baseline for the stress testing in order to reduce complexity without jeopardizing the material quality of the data. As stated by de Alba and Mendoza (2007), the stable “seasonal” or short-period data is sufficient for the future forecasting, adopting the Bayesian statistical theorem.

The next quantitative exploration was doing the stress testing to the calculated proxy of total financial impact. The stress testing is essential in this research since there is the possibility of increase in the number of customers who are going to do the early pay-off after the mandatory socialization of the *muqasah* program to all of the customers. Following the proceedings of risk management certification (SKKNI, 2024), the writer conducted the stress testing with the clear scenario selection of the occurrence of financing early settlement and then applied three scenarios (mild, moderate, and severe but plausible scenarios) to measure the financial impact of the scenarios.

To analyze the result of the in-depth interview (IDI), the authors conducted the qualitative content analysis to objectively assess the respondents’ perception on the mandatory *muqasah*, plan of implementing the fee for early settlement, and strategy mix to cope with the potential financial impact following the implementation of *muqasah*. Following Sekaran and Bougie (2016), content analysis is useful to identify patterns across qualitative data. Specifically in this research, the writer will create the clusters of the idea themes that are thrown out by the respondents through semi-structured interview.

RESULTS AND DISCUSSION

1. Data Proximation: Understanding the magnitude of the financial impact from the early settlement

In order to understand the magnitude of the issue of muqasah implementation, the author calculated the impact using the back-testing method from the financing early settlement data from the first and second quarter (Q1 and Q2) of 2024 and compare it to the Q1 and Q2 of 2025. The reason of choosing this period of data was that the year 2024 was when the regulation was being enforced to be implemented in the sharia Bank. The regulator started to push the implementation of this regulation to the Banks that use murabahah contract in their financing products. The Q1 and Q2 data is considered sufficient to analyze the trend of early settlement among the Bright Bank's customers. Considering those factors and following the calculation method and steps that are explained in the previous chapter, below are the findings about the magnitude of financial impact of the financing early settlement:

Table 3. Back-testing result of potential profitability loss

Period of data	Total Observed Data	Annualized potential loss (amount in IDR)
Q1 & Q2 2024	<ul style="list-style-type: none"> Total disbursed financing: 1.2 million accounts Average rate of monthly early settlement: 7.60% of disbursed financing Average amount of ticket size: IDR 7.5 million per financing 	Total annualized potential loss from all three groups of observation is: IDR 7.6 billion
Q1 & Q2 2025	<ul style="list-style-type: none"> Total disbursed financing: 1.2 million accounts Average rate of monthly early settlement: 2.12% of disbursed financing Average amount of ticket size: IDR 7 million 	Total annualized potential loss from all three groups of observation is: IDR 2.1 billion

There was a significant declining trend of the rate of early settlement of the financing from 7.60% of the numbers of disbursed financing in the first semester of 2024 to 2.12% of the numbers of disbursed financing in the first semester of 2025. The declining trend directly affects the amount of potential loss that Bank will suffer from the unclaimed margin revenue once the mandatory muqasah regulation is being implemented. The declining trend might be the result of the implementation of the strategy of limiting the early financing settlement that is initiated by the Bank. This strategy is one of the efforts to maintain the balance of the financing pipeline throughout the year. In a detailed observation, there was a slight change in the trend of group of observation with the highest contribution to annualized potential loss. In 2024, Group 2 (financing accounts that were early-settled 1-3 months prior to initial due date) contributed the highest number of potential losses to the annualized bucket of the potential loss with IDR 3.5 billion. However, in 2025 Group 3 (financing accounts that were early-settled > 3 months prior to initial due date) contributed the highest number of potential losses to the annualized bucket of potential loss with IDR 918 million. Analyzing from the data population that was observed, Group 3 in 2025 contributed more accounts to the aggregated bucket of early-settled financing than the Group 3 in 2024 (7.3% compared to 6.0%). This means that the Bank should pay more attention to the potential of early settlement that comes from the financing with more than 3 months gap from their actual due date of financing maturity.

2. Result of Stress Testing Analysis

According to the Bank of International Settlements (2009) through their publication entitled Principles for Sound Stress Testing Practices and Supervision, stress testing is considered as one of the most important risk management tools, with its particular roles in providing forward-looking assessment of risk and facilitating the development of risk mitigation or contingency plans. Following the framework that has been stated in third Chapter (Methodology), below is the chart that shows the stress testing output:

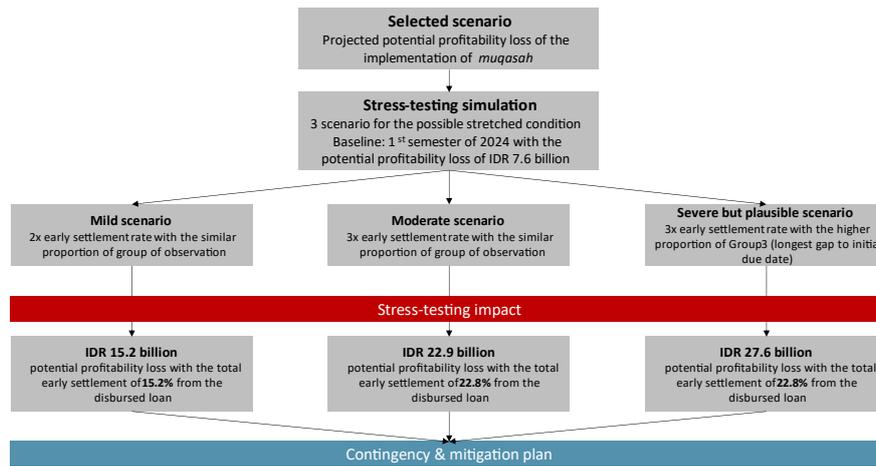


Figure 1. Summarized result of stress-testing using three scenarios

Citing from various sources such as the Guidance on Stress Testing for Banking Organizations (Federal Reserve, 2012), EU-Wide Stress Test (EBA, 2025), and Indonesia’s Risk Management Certification that is based on SKKNI (2024), multiple scenario stress testing should be performed by the banks with the aim to predict future losses arising from several kinds of risks such as credit risk and operational risk. Following the stress testing performance, the impact of the tested aspect and scenarios on the interest-based and/or fee-based income should be observed. Although it was informed from the sources that multiplier might or should be involved in designing the scenario, there was no standard approach for the number of the multiplier that should be used under certain situation. EU-Wide Stress Test implicitly suggested that Bank should estimate its own calculated loss and could use qualitative approach in determining the stress multiplier to the average in the adverse scenario.

Based on that guidance, the author used the Bright Bank’s historical approximation early-settlement data from the first semester of 2024 and 2025. Reversibly, the potential profitability loss in 2024 is worse than that of 2025 due to the lack of field strategy in distributing the financing and pipeline management. The potential financial impact in 2024 is around 3.58 times higher than that of 2025. Referring to one of the key takeaways in sub-chapter 4.1, there was a finding of a slight increase in the percentage of the early settlement that comes from the customers whose financing accounts are still far from their due date (> 3 months gap). Using this historical data and findings and the suggestion of using a relatively simple tests to ensure usefulness and informativeness (Federal Reserve, 2012), the author used the three multiplication scenarios below:

- Mild scenario, using 2x multipliers (lower than the reverse historical trend of 3.58x) on the number of accounts that apply for the early settlement with the same proportion of financing tenor and time of applying the early settlement. This scenario informed that the Bank might suffer from IDR 15.2 billion potential profitability loss once the muqasah regulation is implemented plainly without any strategic move.
- Moderate scenario, using 3x multipliers (closer to the reverse historical trend of 3.58x) on the number of accounts that apply for the early settlement with the same proportion of financing tenor and time of applying the early settlement. This scenario informed that the Bank might suffer from IDR 22.9 billion potential profitability loss once the muqasah regulation is implemented plainly without any strategic move.
- Severe but plausible scenario, using 3x multipliers (closer to the reverse historical trend of 3.58x) on the number of accounts that apply for the early settlement with the same proportion of financing tenor and time of applying the early settlement. To make it different with the moderate scenario, this scenario deployed the possibility of the increasing trend of longer gap early-settlement (from 6.0% in the first two scenarios to 7.6% out of total early-settled accounts). This scenario informed that the Bank might suffer from IDR 27.6 billion potential profitability loss once the muqasah regulation is implemented plainly without any strategic move.

3. Designing the early-settlement fee

The Bank should take a concrete action as an effort to mitigate the potential profitability loss due to the implementation of mandatory muqasah. One of the possible actions to take is charging the early-settlement fee to the customers who request for it. In this case, Bright Bank is exercising its right on charging the fee, as mentioned in Pedomannya Produk Pembiayaan Murabahah Perbankan Syariah (OJK, 2022): “In the case of the early settlement is requested by the customer, Bank may charge the actual cost to the customer.”

In order to formulate the early-settlement fee, the author learned from Bright Bank's tacit and explicit knowledge from the previous project and consulted with the relevant stakeholders to review and to approve the financial components that are used in the calculation formula. The figure below explains the process and the formulation of the early-settlement fee:

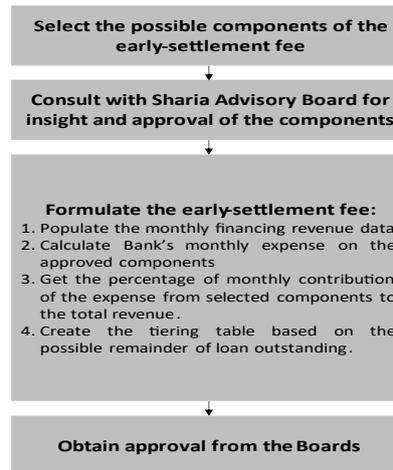


Figure 2. Simplified method of early-settlement fee formulation

Under the Bank's confidentiality, the actual components of expense and the actual number of the calculated early-settlement fee, and the table of tiering were not informed in detail. In general, the application of early-settlement fee will directly help the Bank in lessening the financial impact of the Potongan Utang Pembiayaan Murabahah Sebelum Jatuh Tempo (PUPMSJT) or mandatory muqasah regulation. However, the impact might differ based on the nature of the financing product, and the time when customer apply for the early settlement. For example, at most the early-settlement fee could contribute up to 65% to cover the profit loss for the early settlement that is applied less than 2 months prior to due date, for the financing with 2-year tenor. In the other hand, this fee could only contribute around 18% to cover the profit loss for the early-settlement that is applied way earlier (up to 6 months prior to the due date) for a shorter financing tenor.

4. Understanding customer perception through in-depth interview

In order to understand the actual customer perception about the upcoming implementation mandatory muqasah, the authors run the purposive qualitative interview to several Bright Bank customers. The authors divided the respondents of the interview based on their history of early settlement and their current choice of financing product as shown in the above Table 1. In conducting the in-depth interview, the author split the session to 3 sub-sessions which started with the introduction and the capture of general perception from the customers towards the service from the Bank. This sub-session functioned as the ice breaker and the way for the author to understand the natural response and perception from the customers towards Bright Bank before any treatment or information about the early-settlement. Following that starting sub-session, the authors capture the understanding of customer view and perception towards the early-settlement (needs and wants) in Bright Bank prior to the information about the mandatory muqasah. Lastly, the authors dug the customer view and perception towards the early-settlement (needs and wants) and the potential early-settlement fee and general requirement of getting the muqasah in Bright Bank after the information about the implementation mandatory muqasah.

By strictly sticking to the sequence above, the author tried to minimize the potential of biased answer to the questions about the customer needs and aspiration of doing the early settlement. The respondents were also assured that their answers would strictly be used for the research purpose and would not interfere the Bank's decision for their existing or upcoming financings. Following the three important steps in qualitative data analysis (Sekaran & Bougie, 2016), the sub-sessions were also aimed as the form of data reduction. All of the information that was received by the author during the interview phases was selected and grouped into several themes that matched the interview sub-sessions. The author deliberately chose the respondents with minimum 3 years of relationship with Bright Bank, so that the customers will have certain level of understanding about the Bank's service and products. The various profile of the respondents (referred to the Appendix's Table x) was intended to minimize the bias in answering the interview question. Comparatively, HRY is the respondent with the biggest size of business and with the most experience, including the digital marketing through social media platform. The authors purposively took

samples from the group and individual financing product to observe if there is any possibility of the respondents to influence other customers to do the early-settlement after understanding the concept of mandatory muqasah. Following the interview methodology that is stated in the previous chapter, the authors divided the interview result from the 3 sub-sessions accordingly. In the first sub-session, the author dug the information about the customer perception of Bright Bank product and service. In general, all respondents stated that the financing facility that they received from Bright Bank suited their business needs (considering that the purpose of the financing is for the productive use). Respondents from HRY & PRY showed the most mature mindset of running their business, where they managed to mention about using the financing for developing the size of their business or for diversifying the products that they manufacture and sell.

The respondents in this interview openly declared that they have had or was having financing facility from other bank or financial institutions. However, all of them agreed that the service offered by Bright Bank's field officers are exceptional in terms of their friendliness to the customers. Most respondents value Bright Bank's product feature of not requiring any physical collateral. One of the respondents explained that she also benefited from the social empowerment program that is offered by the bank through the financing product; the program helped her in getting technical assistance in promoting her business. However, one respondent explicitly stated that Bright Bank's financing pricing is considered high if it was compared to the financing products from other banks.

In the second sub-session, the authors tried to understand the respondents' perception on the early-settlement, and the factors that may affect their decision in doing that. In this sub-session, the respondents answered the question without knowing the Bank's plan of implementing mandatory muqasah. Since the respondents were grouped by their history of early-settlement, it was straightforward that Group A and Group C preferred to settle their financing on-time, while Group B and Group D showed clear tendency of doing the early settlement when needed. However, one respondent in group A stated that should she get the "offer" of doing the early-settlement from the field officers, she would consider taking the offer.

Regarding the motivation of applying for an early-settlement, respondents from across the observation groups declared that business needs was or might be the primary motivator. Buying more stocks to mitigate peak seasons (e.g. Eid al-fitr and marriages), opening new branches, producing more products are the reasons the respondents declared. By doing the early-settlement, they can apply for the new financing with usually bigger ticket size that was useful for those business purpose. However, respondents with the history of early-settlement in Group B and Group D stated that sometimes, they did the early-settlement due to the offer from the field officer. In this case, respondents (and the field officers) confirmed that their good performance in paying the instalment on time become the primary reason the informal selection of offer. Aside from that, one respondent from Group B stated that she took advantage of the early-settlement and early financing advancement for her personal or family needs.

In the last sub-session of the interview, the author gathered the customer perception on the early settlement after giving the information of muqasah implementation. Also in this sub-session, the author tried to observe the potential deterrents or strategies that can be leveraged to manage the application of the early-settlement following the implementation of mandatory muqasah in the near future. Respondents from Group C were being steadily firm with their perception of not needing to apply for the early-settlement despite the chance of getting the discount. They perceived that the good financing is the one that is paid and settled on time, following the initial schedule. One of the respondents in this Group explicitly expressed that the amount of the discount is not that much that it did not move her to apply for the early settlement. On the other hand, respondents from Group A showed the shifting perception. They now thought that they wanted to apply for the early-settlement if they get the discount. Respondents from Group B and Group D displayed the positive attitude towards the plan of implementing the mandatory discount. It felt like they got the encouragement to continue their behavior of settling the financing early.

There were three main deterrents or strategies that is being asked as the part of this interview, which were the early-settlement fee, the obligation for the customers to inform the request for the early-settlement (at least 2 weeks prior to the request date of settlement), and the top up financing. For the early-settlement fee, all respondents showed positive perception, saying that the amount of the charged fee was reasonable and acceptable. They confirmed that they would let the bank charge them the fee as a trade-off of getting the discount. For the obligation of informing the officers early, all customers showed no objection towards this potential internal rule. Regarding the preferability towards financing Top Up, all of the respondents said that they lean towards getting a new (early) financing disbursement with bigger ticket size than getting the Top Up with usually limited amount of money. They perceived that paying for one bigger financing is more preferable than paying two financing accounts.

To summarize the in-depth interview, there were several key takeaways:

Table 4. Key takeaways from the interview result

Group of interview question	Key takeaways
Customer perception or behaviour on doing early-settlement prior to mandatory <i>muqasah</i>	<ul style="list-style-type: none"> • Customers have three main reasons of applying for early settlement: (1) business needs, (2) personal/family needs, dan (3) officer's offering. • Customers with no history of early-settlement might (1) not need the early-settlement, or (2) need the early-settlement but was not "selected" by the officers.
Customer perception on early-settlement after the information of mandatory <i>muqasah</i>	<ul style="list-style-type: none"> • Majority of the respondents expressed their eagerness to get the mandatory discount (<i>muqasah</i>) from doing the early-settlement. However, majority of the potential taker informed that they would not persuade other customers to also take the early-settlement. • Respondents were not objected by the simulated early-settlement fee and the internal regulation of early notice for the application of early-settlement.

5. Offering the business solutions

Based on the analyses above, the suggested the business solutions are mostly the policy intervention and the strategized implementation of the regulation. Bright Bank could develop the initial policy that regulates the implementation of mandatory *muqasah*, early-settlement, and the obligatory early notice prior to the early settlement. This initial policy will act as the underlying to pilot the implementation on the limited premise (area of sales), for a more measured impact for initial evaluation. Prior to the pilot, it is highly advisable for the Bank to develop the minimum viable product (MVP) of the system and digital application to support the piloting. The automated calculation and digitalized parameters will help the Bank to control the operational risk of executing the internal policy. With the initial policy and system MVP in place, the evaluation phase of the piloting, should include the business impact of the tested early-settlement policy, the reliability of the system support, and the customer feedback and insight. For a longer term, Bright Bank could consider developing a potentially new program of top up to satisfy the needs of flexible financing during the initial tenor of the financing. This product can be designed as the reward for the customers who manage to settle their previous financing on-time, so that this product could promote longer customer turnover and the protection to the margin income for the Bank.

CONCLUSION AND RECOMMENDATION

Conclusion

To conclude the project, the author outlined the research objectives that are observed through the performed analyses in the previous chapter. In terms of the current financial impact of the financing early settlement, The authors observed the decreasing magnitude of financial impact of early-settlement from around IDR 7.6 billion in 2024 to IDR 2.1 billion in 2025. However, reversibly, it showed that without proper strategy in implementing the mandatory *muqasah*, the Bank could suffer from significant profit loss. Using the three scenarios of stress-testing using the 2024 data as the baseline, the Bank could plausibly be exposed to the margin loss of IDR 27.6 billion (around 2.5% of the total net income of the Bank). Given the strict timeline, Bright Bank considers the development of the reasonable, acceptable, and compliant early-settlement fee is going to be prioritized in directly tackling the financial impact of mandatory *muqasah*. Currently, the proposed formula could cover up the financial impact from 18-65% of the possible profitability loss from the discounted margin.

Based on the in-depth interview, the respondents (representing the customers) perceived the mandatory *muqasah* as something that is beneficial to them. Customers have three main reasons of applying for early settlement which are the business needs, personal/family needs, and officer's offering. Despite the range of their willingness to do the early-settlement, they valued the discount that could be given under this regulation. Furthermore, they also perceived that the Bank's initial plan to implement the regulation (through early-settlement fee and obligatory prior notice) were considered acceptable. Even though most of the respondents did not show the tendency to influence other customers in taking the early-settlement, this behaviour was still observable and should be taken into consideration in designing the best possible incentive to neutralize the impact. Additionally, respondents' preference

on taking early-settlement to financing top-up could be an aspect to be considered in designing a long-term strategy of implementing mandatory *muqasah*.

Recommendations

Despite the comprehensive qualitative analyses that were performed under this project, the authors believe that there are ways to contribute more to this project or research. Quantitative research, case-based evaluation, or finance-based calculative project could be the top options of continuing or elaborating this project. The elaboration on systems thinking and systems dynamics could also be valuable in providing deeper understanding of the strategies developed in implementing mandatory *muqasah*.

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FORMULATING THE IMPLEMENTATION OF MUQASAH IN MURABAHAH FINANCING IN INDONESIA'S ISLAMIC BANK

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