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A Conceptual Framework For Islamic Gold Monetization: Hybrid Musharakah Model

Hardiansyah¹

¹Magister Management, University of Paramadina, Jakarta, Indonesia

Article Info:

Abstract

Keywords:

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Musharakah;
Rahn;

This conceptual paper proposes a hybrid musharakah gold-based refinancing scheme submitted for productive physical gold investments. It answers the product innovation opportunity challenge in Islamic Financial Institutions (IFI) towards bullion bank activity implementation because of Act of Law No. 4 of 2023 about P2SK. This study uses a descriptive qualitative approach of contemporary resource material about fiqh literature from Shariah Standard No. 57 on gold trading and its trading control released by the World Gold Council and AAOIFI, as well as Fatwa DSN MUI for Musharakah refinancing contract, then validated by semi-structured interviews. We use product simulation to present and compare the concept with an existing gold-based pawn contract (Ar-Rahnu). The calculation will be based on the risk-adjusted valuation to protect the initial investment. Eventually, the result shows that this proposed model can be an alternative to productive gold investment and financing methods for its debt-free contract and make gold savings more valuable.

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(*) Corresponden Author: Hardiansyah

✉ University of Paramadina, Jakarta, Indonesia.

Email: hardiansyah@lecturer.paramadina.ac.id

INTRODUCTION

Gold investment is still considered a haven for protecting wealth from inflation risk (Erb et al., 2020), hedging against currency risk (Gomis-Porqueras et al., 2022), and vogue not only among retail consumers but also large investment companies and central banks (Baur & Lucey, 2010; Baur & McDermott, 2013; N. P. Singh & Joshi, 2019) which according to the (World Gold Council, 2015), the reasons for its popularity for investment are varied. However, although gold prices have shown an upward trend over the years, many consider gold investment a dull option without attractive yields, particularly during low or negative interest rates (Jermann, 2023).

Most physical gold investment remains idle in bank vaults or safes (C. Singh et al., 2017). The perception of gold as a zero-yield investment is constant when contrasted with stocks, which offer stable income and dividends. It needs a better innovative service scheme that may help to write off that image. The Gold Monetization Scheme (GMS), initiated by the Reserve Bank of India in 2015, offers several

advantages over other alternatives (Sudindra & Naidu, 2019), such as Gold Deposit Scheme, Sovereign Gold Bond, and Gold ETF. Similarly, to India, Turkey has commercialized programs for innovative products for gold commercialization (Bullion Bulletin, 2015), which are essentially lending finance schemes. (World Gold Council, 2015).

In Indonesia, The House of Representatives passed Act of Law No. 4 of 2023 concerning Strengthening the Financial Sector or P2SK (the "Financial Sector Omnibus Law"). It opens innovation for Islamic Financial Institutions (IFI) for gold bullion business activities (Siaran Pers Kemenkeu RI, 2023) and Islamic innovative gold monetization schemes. The common practices in Islamic finance related to bullion services suggest that gold has been primarily used as collateral in Islamic banking through monetization as cash collateral (Murjawi, 2013). An Islamic pawn-broking scheme (Ar-Rahnu) based on (Fatwa DSN-MUI Nomor: 26/DSN-MUI/III/2002) regarding *Rahn Emas* has also been utilized. The use of gold in Islamic finance is strictly regulated through these practices and guidelines.

Nevertheless, the contracts were designed for debt-based systems, which contradict the principles of the Islamic Economy due to the burdensome nature of debt to Muslims and the potential for it to cause disgrace in certain circumstances. Islamic economic transactions should effectively facilitate modern men's liberation from a debt-ridden economy and guide them toward a just and equitable society (Nabi, 2018). Moreover, there is skepticism about (Fatwa DSN-MUI Nomor: 92/DSN-MUI/IV/2014) about financing combined with *Rahn*, resulting in ongoing debates over the taking of *mu'nah* cost, despite it must be in real cost, is *hillah ribawiyah* (Hayati, 2021; Lubis, 2017; Mohamed Naim, 2004).

Islamic transaction focuses on profit and loss sharing, rather than debt schemes, which must be prioritized since the motive of speculation has been eliminated (Chapra, 2003). Equity participation or *musharakah* financing is a significant principle in Islamic finance, as highlighted by various research studies (Aggarwal & Yousef, 2000; Asutay, 2007, 2012; Chong & Liu, 2009; El-Gamal, 2006; Farooq & Zaheer, 2015). However, Islamic banks seldom use this type of financing and instead prefer other instruments, such as margin markup (*murabahah*) or leasing contracts (*Ijarah*) (Meslier, Rifandy, & Tarazi, 2020). Therefore, we must develop an innovative gold monetization scheme, which enables gold to be productive without relying on debt and still adhering to Sharia principles. The elimination of *riba* and the implementation of a *zakah* levy on gold necessitates the need for an improved gold monetization scheme, making gold investment more appealing.

Most studies on the development of innovative products and services in Islamic finance have focused on theory rather than process modeling (Al-Amine, 2015; Arbouna, 2007). Efforts towards creating Islamic financial products primarily involve replicating traditional methods and converting them into Sharia-compliant contracts. Islamic finance presents itself as an innovative alternative to conventional financing. The primary objective is to enhance Sharia-compliant practices for identical commodities (Dinc, 2020). Establishing the fundamental basis in Islamic jurisprudence and scholars' viewpoints necessitates considerable effort.

Our study contributed to the literature in multiple ways. Firstly, we presented an innovative approach that complies with Shariah guidelines for Islamic finance by introducing a conceptual model for *Musharakah* gold-based refinancing. The model employs a joint ownership structure for gold within *musharakah* contract. Secondly, we outline the rationales and *fiqh* justifications for Islamic scholars, practitioners, and fatwa-making institutions to integrate the conceptual characteristics of gold equity refinancing into Islamic banks. We contend that conventional gold collateral and pawn scheme approaches are less appealing and effective. Finally, our research showcases a

development of the simulation of the gold equity refinancing system in comparison to the Islamic pawn scheme.

RESEARCH METHODS

This study employed a qualitative approach through a literature review on GMS practices, Islamic Jurisprudence and was validated by a semi-structured interview technique (Saunders et al., 2009), along with contemporary regulatory materials from BI, OJK, and *fiqh* literature sourced from Sharia Standard AAOIFI No. 57 on gold trading and its regulation, as well as DSN MUI concerning *Musharakah* and its refinancing contract. Purposive sampling is a technique that is frequently used in qualitative research (Saunders et al., 2009). In this study, key informants were chosen based on their familiarity with NPD exercises in Islamic banks, their involvement in the NPD process, and their experience with NPD activities in other banks. (Bryman & Bell, 2007).

Key informants were chosen for this conceptual research based on their knowledge, interest, and experience in Islamic banking and finance, the gold industry, NPD process, and Shariah compliance. On the basis of this investigation, the appropriate volunteers were selected. Additionally taken into consideration were earlier empirical investigations in the NPD literature (Cooper & De Brentani, 1991; De Brentani, 1989; Ulrike, 1993). Interviewees included gold business practitioners and sharia compliant officer from Bank Jago Syariah and Bank Syariah Indonesia. Our focus will be on building a conceptual framework by comparing hybrid hold *Musharakah* refinancing instead of the implementation of *Ar-Rahnu* or Islamic Pawn to influence economic productivity.

RESULT

India Gold Monetization

Gold monetization, as defined by the (Reserve Bank India, 2022), is the process of turning gold into cash and generating interest on it. The Gold Savings Account GMS scheme, which amends the current Gold Deposit Scheme (GDS) and Gold Metal Loan Scheme (GML), enables gold depositors to earn interest on their gold saving account. The scheme's goals are to mobilize gold held by households and institutions in the country, facilitate its use for productive purposes, and eventually lessen the nation's reliance on gold imports. A depositor will profit from both the revenue generated on his or her gold deposits and the increase in the price of gold, according to the (Goel, 2015). Upon maturity, the depositor would get their gold deposit back together with interest in the form of cash or gold bars with a purity of 995, depending on their preference. The depositor has three options for the length of the deposit: short-term (1-3 years), medium-term (5-7 years), and long-term (12-25 years).

Turkey Gold Monetization

Turkey has succeeded similarly to India because of the framework and infrastructure that are in place (C. Singh et al., 2017). Turkey's banking regulators gave banks permission to purchase and sell gold jewelry and coins. The gold market flourished as a result of all the previous procedures, and banks fought for this market by introducing cutting-edge loan products like interest-bearing fixed-term gold savings accounts, gold accumulation programs, and gold structured products (Bullion Bulletin, 2015). Massive amounts of "under-the-pillow" gold were mobilized and sold under the scheme as a result of these continuous attempts. The gold that was so mobilized has also been used in participation schemes known as gold-for-gold, which are effectively loan finance schemes within the real economy (World Gold Council, 2015a).

Islamic Jurisprudence Arbitrage and Sharia Ruling of Gold Exchange

Gold is considered a *ribawi* commodity under *sharf* law, meaning it is subject to usury in buying and selling transactions. The Prophet (peace be upon him) determined that *ribawi* commodities include properties subject to usury. This determination was based on a hadith narrated by Ubadah bin Shamit (may Allah be pleased with him).

عَنْ عُبَادَةَ بْنِ الصَّامِتِ قَالَ: قَالَ رَسُولُ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ: «الدَّهَبُ بِالذَّهَبِ، وَالْفِضَّةُ بِالْفِضَّةِ، وَالنُّزْ بِالنُّزْ، وَالشَّعِيرُ بِالشَّعِيرِ، وَالْتَمَرُ بِالتَّمْرِ، وَالْمَلْحُ بِالْمَلْحِ، مِثْلًا بِمِثْلٍ، سَوَاءٌ بِسَوَاءٍ، يَدًا بِيَدٍ، فَإِذَا اخْتَلَفَتْ هَذِهِ الْأَصْنَافُ، فَبِيعُوا كَيْفَ شِئْتُمْ، إِذَا كَانَ يَدًا بِيَدٍ.» «صحيح مسلم» (44/5 ط التركية)

"Gold with gold, silver with silver, burr with burr, sya'ir with sya'ir, tamr with tamr, salt with salt, the levels must be similar and the same, must be from hand to hand (in cash). If the type is different, then sell it as you like, as long as it is done from hand to hand (in cash)" (Al-Muslim, 1915,5:44, hadith no. 1587).

According to the Gold Trading Standards and Controls No. 57 of 2016 issued by AAOIFI, it is required that when gold is traded for gold, silver, or other currencies, both countervalues must be handed over immediately, either physically (*Qobdh haqiqi*) or constructively (*Qobdh hukmi*). This law does not apply if gold is exchanged for commodities outside *illat tsamaniyah*. Gold sellers who sell gold with *qobdh hukmi* are required to provide a certificate at T+0 that displays the gold's proportion, weight, caratage, serial number, or other features to demonstrate that it has been assigned and cannot be traded to other parties. Conversely, buyers, whilst receiving only a certificate, have full access to and can retrieve their purchased gold at any time. Apart from buying and selling, gold may also be employed in sales and purchase contracts (*bai*), *ijarah*, and cooperation agreements such as *musharakah*, *mudharabah*, and *Wakalah bil Istitsmar* (investment). Additionally, it can be co-owned (joint ownership/*syirkatul milkiyyah*) with a record of the gold used. If the gold is of a particular nature (allocated), it should be identifiable by a serial number or other physical mark that distinguishes it from other gold bullion (AAOIFI, 2008).

However, in Indonesia, the DSN-MUI, serving as the fatwa authority in accordance with Indonesian law, undertook a *Tahqiq Al Manath* study concerning gold as a *ribawi* commodity. Adhering to the principles of *ushul fiqh*, it was determined that gold meets the criteria for *ribawi* commodities, making it subject to *zakat*, but not used as money.

الحكم يدور مع العلة الماثورة وجودا وعدمًا

"The existence of law revolves around the existence of its "illat" (cause). There is "illat" there is law, there is no "illat" there is no law."

According to the ulama Ibn Taymiyyah and Ibnu Qoyyum, gold or silver is no longer treated as money but as goods (*sil'ah*). This is in line with the notion that if gold or silver is used for creating jewelry, it has the same status as goods (*sil'ah*), as emphasized by Ibn Taymiyah and Ibn al-Qayyim. It is stated in Article 1, numbers 1 and 2, Article 2, paragraph 1 and Article 21, paragraph 1 of the Indonesia Currency Law (UU No. 7/2011) that the only legal means of payment within the Republic of Indonesia is the rupiah. The use of any other currency, including gold, is prohibited. Furthermore, in 1971, President Richard Nixon ended the Bretton Woods era by withdrawing the dollar's convertibility to gold in order to tackle the international issue of an imminent gold rush and the domestic problem of inflation. Subsequently, no nations have used gold as a currency backup, rendering it obsolete apart from central bank currency printing. Trustworthy government bonds have taken gold's place as a backed asset.

Based on the matters above and taking into account the principles of *ushul al-fiqh* and *fiqh*, it is deemed that the legal terms and conditions for exchanging gold and silver, stipulated in the hadith of the Prophet and according to the MUI DSN, no longer apply to the current exchange of gold for money. Hence, the MUI issued fatwa no. to reflect this rationale. Per DSN-MUI/V/2010 guidelines, non-cash buying and selling of gold, including *murabahah* trading and ordinary purchasing, is permissible (*mubah/jaiz*), provided the gold is not used as official currency.

Hybrid Musharakah

According to *fiqh*, the Arabic phrase *al-'uqud al-murakkabah*, which means double contract, is translated as "hybrid contract." The two terms that make up *al-'uqud al-murakkabah* are *al-murakkabah* (plural of *'aqd*) and *al-'uqud*. In Indonesian civil law, the term "*aqd*" refers to an agreement and has the meaning of "to establish, bind, connect, or connect." (Ma'Luf, 1986) defines "*aqd*" as the act of entering into a bond or agreement that creates an obligation. In contrast, a *murakkab* contract is a collection of several significant contracts that are incorporated into one contract jointly and reciprocally so that all rights and obligations are seen as the legal results of a single agreement (Al-Imrani, 2006).

This Combination is sort of cooperation between two or more parties, *musharakah* is comparable to *musharakah mutanaqishoh* contract, which is a product of *musharakah*. Interpreting *musharakah* or *Syirkah* linguistically indicates *al-ikhtilath*, which translates to "blending" or "combining." Scholars of *fiqh* define *syirkah* as the combination of assets to be used as business capital and the resulting division of profits or losses (Syabiq, 2000). According to its definition, *syirkah* is a business partnership in which two or more individuals share profits and losses (Ghazaly, Ihsan, Shidiq, 2010). To put it another way, it's a lawsuit brought by two parties that decide to run a company jointly using profit-sharing arrangements.

This kind of hybrid *musharakah* will foster cooperation between two or more people regarding property ownership. By working together, one party's ownership rights will be reduced without harming the rights of the other parties. payment methods for other ownership rights to transfer ownership. When one party transferred their rights to the other, this kind of collaboration came to an end (Wahbah, 2010). The *Musharakah Mutanaqisah* was regarded as *syirkah 'ain*, because both parties contributed *ra'sul maal* (Capital), and the consumer entrusted business transactions and profit-seeking to IFI. During the contract period of *syirkah*, the IFI sells all or part of its portion to the consumer and the consumer might choose to buy gradually based on PT Antam Selling Price, or the consumer also might choose to wait until the period of the contract is over. According to (Wahbah, 2010), "this transfer of ownership during the contract is contingent upon the sale transaction being carried out independently and being unrelated to the *syirkah* contract."

Gold as Joint Ownership Commodity and Capital

According to AAOIFI No. 57 on gold trading and its trading control, Shari'ah rulings for trading in gold vary according to the following : (1). On the basis equality or disparity in weight; 2). Based on immediate or deferred exchange of counter values. Gold is also permissible as capital in partnership (*Musharaka*), profit sharing (*Mudaraba*) (Sadique, 2009, 2012; Zain et al., 2014), or investment agency (*Wakala*), if it is valued and its monetary worth in the currency of capital is defined by mutual consent of the contracting parties at the contract date. This appraisal is performed to determine the partners' shares in *Musharakah* or the capital of *Mudharabah* and Investment *Wakalah*. If the gold cannot be valued, the use of gold as capital is prohibited. The parties may share the profit in gold as long as it is at the market value of gold at the time of profit distribution. At the time of redemption, it is also permissible for the parties to

redeem their capital in gold upon liquidation, provided that the price of gold at the time of redemption is at the market value of gold.

It is also possible to jointly possess gold if each partner has an undivided share of a set proportion in the pool of gold. If practicable, the owner of the undivided share may request the segregation of his share without prejudice to the other partners. He may sell his entire stake without restriction. In the event of a loss or damage, each co-owner is responsible for the losses/damage pro rata. Ingots stored in a warehouse and not distinguishable by serial numbers are considered unallocated and are thus subject to the Shariah rulings for joint ownership (AAOIFI, 2008). However, if the ingots have distinguishing serial numbers, each owner shall own his allocated ingots and be liable for their loss, unless they all agree that the ownership of the stored ingots shall be joint and undivided, in which case the rulings of joint ownership shall apply. In the event of loss or damage of the jointly owned ingots, each owner shall bear the loss pro rata, provided that the overall amount in storage is specified at all times.

To comply with the Sharia standard, we will look at fatwa as the basis of this transaction. DSN MUI, as a fatwa maker, had released (Fatwa DSN Nomor 73/DSN-MUI/XI/2008) about MMq Contract and (Fatwa DSN Nomor 89/DSN-MUI/XII/2013) of Sharia Refinancing possibly using MMq contract. The foundation of this Sharia principles allows this transaction model to be based on some Al Quran and hadith and Islamic scholars' opinions such as :

وإن اشترى أحد الشريكين حصّة شريكه منه، جاز؛ لأنه يشتري منك غيره
«المعنى» لابن قدامة (167/7 ت التركي)

"Whenever a partner (syarik) purchased others partners portion/share/hishshah, then it is permissible, because verily he purchased others. (Ibn Qudamah in al-Mughni, 1997, 7: 167)

لَوْ بَاعَ أَحَدُ الشَّرِيكَيْنِ فِي الْبِنَاءِ حَصَّتَهُ لِأَجْنَبِيٍّ لَا يَجُوزُ وَلِشَّرِيكِهِ جَازٌ
حاشية ابن عابدين = رد المحتار ط الحلبي: (4/ 300)

"It is impermissible if a partner (syarik) sell his portion/share in the building to someone else (not his partner), but it is permissible, if he sells to his partners. (Ibn 'Abidin in Rad al-Muhtar 'ala al-Dural-Mukhtar, 1966, 4 : 300).

هذه المشاركة مشروعة في الشريعة لاعتمادها -كلاجارة المنتهية بالتمليك- على وعد من البنك لشريكه بأن يبيع له حصته في الشركة إذا شدد له قيمتها. وهي في أثناء وجودها تعد شركة عنان، حيث يساهم الطرفان برأس المال، ويفوض البنك عمله الشريك بإدارة المشروع. وبعد انتهاء الشركة يبيع المصرف حصته للشريك كلياً أو جزئياً، باعتبار هذا العقد عقداً مستقلاً، لا صلة له بعقد الشركة.
(المعاملة المالية المعاصرة لوهبة الزحيلي 436-437، 2002 م)

"Musyarakah mutanaqishah is permissible in shariah, since - as Ijarah Muntahiyaah bi-al-Tamlik--based on the promise of the bank to the customer/partners that the Bank will sell a portion of ownership in, if the partner has paid to Bank its price portion. Upon contracts, Musyarakah mutanaqishah is considered as Syirkah 'Inan, since both parties had contributed wealth, and the Bank delegated to its customer/partner to manage the business. After completed, Bank sells all or part of its portion/share to its partner, with condition that this sale transaction done distinctively not related to Partnership Agreement." (Wahbah Zuhaily, Muamalah Maaliyah Al Muashiroh, 2002, Page 436-437)

Discussion

Gold Monetization Scheme based on Musharakah Model

The hybrid *musharakah* model is conceptually based on Asset equity-based financing which refers to a type of financing where an individual or company raises funds by selling equity in its assets. In asset equity-based financing, the investors become co-owners of the company's assets and share in the profits or losses generated by those assets. Sharia-compliant - asset-based financing can be a good option for companies that want to retain ownership and control over their assets while still raising capital and better consumer protection (Abdul Aziz & Gintzburger, 2009). Promotion should be made by Islamic Financial Institutions for equity-based rather than debt-based, although the latter seems to be the lesser mode being applied due to several issues in spite of being more Shariah-compliant (Sudindra & Naidu, 2019).

Figure 1. Gold Monetization Scheme Based on *Musharakah*

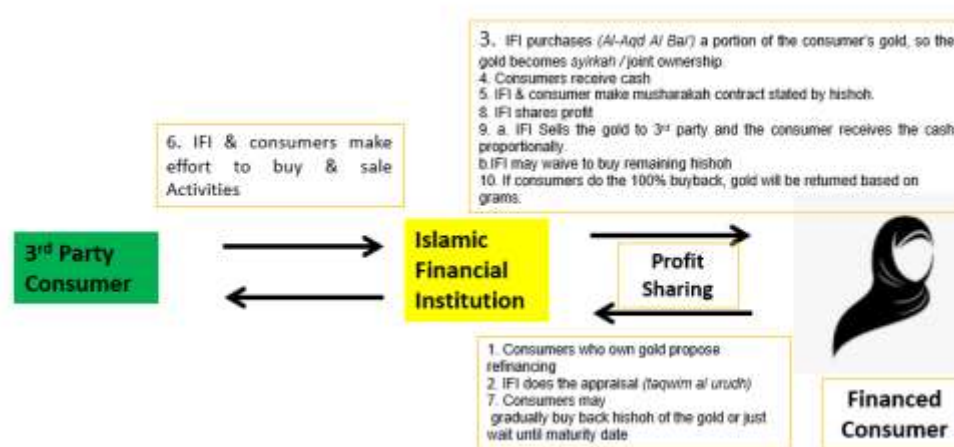


Figure 1 shows the gold monetization scheme based on *Musharakah*. It is explained as follows: 1). Consumers who own gold propose refinancing their gold based on joint cooperation or *syirkah*, finance to value a maximum of 80%, 4 months maturity due date, 2). IFI does the appraisal (*taqwm al urudh*) of the gold to determine a fair price, in order to purchase some portion of the gold, 3). IFI purchases (*Al-Aqd Al Bai'*) a portion of the consumer's gold, so the gold becomes *syirkah* / joint ownership between IFI and the consumer, in the context of forming joint capital, 4). Consumers receive cash in hand and use the cash for any purpose, 5). IFI and consumers do *musharakah* contract with capital in the form of gold which is stated in *hishoh/hishoh* unit, 6). IFI and consumer makes an effort and do buy and sale activities with 3rd party, 7). Consumers may gradually buy back the *hishoh* along the way or just wait until the maturity due date, 8). IFI shares the profit to the consumer based on remaining *hishoh*, 9)a. If until the maturity due date, the consumer cannot or won't buy back their *hishoh*, IFI may sell the gold to 3rd party, and consumer receive the cash proportionally; b. IFI also may waive to buy the remaining *hishoh* from the consumer with buyback price (e.g. based on PT ANTAM Price) and becomes fully owner of the gold or sell the gold to 3rd party and then consumer received the cash from the sale based on remaining *hishoh*, 10). After the consumer buys back their *hishoh* to 100%, the gold will be returned to the consumer based on grams.

Comparison between *Musharakah* Gold based refinancing and Ar-Rahnu Scheme.

Comparison between asset joint ownership refinancing and Ar-Rahnu provided as below:

Table 1. Comparison between Musharakah Gold Joint Ownership Refinancing and Ar-Rahnu

Point of Comparison	Musharakah / (Joint Ownership) refinancing.	Arrahnu
1. Form of Physical Gold	Gold must be in the form of Ingot have distinguishing serial numbers and be considered allocated. Ingots stored in a warehouse and not distinguishable by serial numbers are considered unallocated and are thus subject to the Shariah rulings for joint ownership.	The Ingot has a distinguishing serial number and is stored in a warehouse by a financier.
1. Ownership	It involves joint ownership between two parties regarding gold. Both parties own shares in the gold and share profits and losses according to the agreement.	It involves providing gold as collateral to obtain a loan. The borrower retains ownership of the gold but puts it up as collateral. There is no ownership replacement in <i>rahn</i> .
2. Objective	This method aims to activate gold as a productive financial source. Gold is used as commodity transactions to generate profits. This enabled gold as an economic tool.	To get a cash loan using gold as collateral. Gold remains inactive in this regard and is not used for productive economic activities. Its main function is as collateral for loans.
3. Profit Sharing	the distribution of profits between the parties involved depends on their agreement. Profits and losses are divided according to the proportion of ownership of each party.	In Gold Pawn, there is no profit sharing, because what happens is a loan is given in return for interest.
4. Risk and Loss	• Risks and losses in Joint ownership are shared fairly between the parties involved in the agreement. This encourages shared responsibility. • In the event of loss or damage of the jointly owned ingots, provided that the overall amount	• Risks and losses in Rahn are generally borne by the borrower. The borrower must repay the loan with interest, and in case of failure, the collateral gold can be taken by the lender. • In the event of loss or damage of the

	in storage is specified at all times and insured.	collateralized gold ingots, get insured.
5. Time of refinancing	If the due date, the owner still doesn't have the funds to settle his original stake with market value. Then he/she may sell his entire stake left without restriction, and the co-owner agrees to purchase his/her stake left with a market buyback price.	If the due date, the owner must redeem his/her loan plus storage & insurance fee. If the owner fails to do so, then his/her gold will be sold to 3 rd parties upon the owners' agreement to cover the loan plus fee.
6. Cost and Fee	• There is no storage cost, due to <i>musharakah</i>, each owner shall bear the profit sharing as per agreement and loss sharing pro rata. • To reduce moral hazard, gold ingot must be stored in the co-owner's warehouse and insured. Insurance fees will be chargeable pro-rata depending on stake.	There is a storage & insurance fee to pay monthly or quarterly.

As we may see from Table 1., the *musharakah* gold-based refinancing is more appealing for gold owners for 4 reasons: 1). The owner has potential gain and cash flow from gold productivity; 2). No monthly payment is required whether for storage cost (*mu'nah*) or installment. 3). In the case that by the due date, the original gold owner cannot buy back his portion of ownership sold to the co-owner, then they can simply lose it by selling the remaining stake of ownership in the gold. 4). No credit scoring required. Our informant also explained that the *musharakah* contract is a *syirkatul uqud*, it is a *muawadhah* contract and meant to seek profit. So, after the *hishoh*/portion of the gold is evaluated and sold to other partners/*syarik* in percentage.

The challenge is the effort to use the gold as a real underlying inventory basis to be sold for the shariah compliant purpose. As our interviewee said:

".... It must have real effort to make the gold as capital goods to be sold or inventories, not just as collateral. Otherwise, it will become bai' al wafa'."

Our other interviewee confirmed by saying:

"I support if there is any way to make gold more productive. I think It is a brilliant way to make gold productive and have cash flows not only as a safeguarded investment"

The contract itself ensures the gold becomes a joint ownership asset between partners based on *hishoh*/portion percentage. There must be a true effort between partners to utilize this asset to earn profit. So, when it comes partners to buying/selling their portion, it would not make it as buy al wafa'.

How it works.

If we refer to finance to value based on the gold scheme - according to Surat Edaran Otoritas Jasa Keuangan Nomor 14/7/DPBs/2012) - then we may compare the loan received by the customer and the value of collateralized gold, for a maximum of 80% (eighty percent) of the average selling price of gold 100 (one hundred) gram and gold buyback price of PT. ANTAM (Persero)Tbk. IFIs can determine FTV by using other references if the resulting FTV value is smaller than or equal to the regulated FTV value. The limit of FTV is simulated in below Table 2.

Table 2. Table of Finance to Value (FTV) for Gold Collateral in Islamic Bank

Category FTV	Value
FTV using other references	FTV Outcome is smaller or equal to regulated FTV
FTV $\leq$ 80%	(Average of Selling & Buyback Price of PT Antam)

Source: SEOJK No. 14/7/DPBs/2012, based on 100 grams.

It is also explained that the valuation could use another measurement as long as the FTV is lower, or the maximum is the same as above. To protect the volatile price of gold, we use an assumption risk-adjusted valuation of 6-10%. Of course, these numbers will change along the way volatility of the gold chart. We use this number as an assumption to offset the decline in value and protect the initial investment. The FTV method above is an alternative way of determining value. Our gold practitioner expert also shared his experience and justified this FTV method by adding:

"...When he still worked in the bank, sometimes used smooth methods to attract the consumer for marketing communication purposes. We used marketing communication of FTV 95-97%, but from basic gold price that we already lowered, so it could even 100 % finance to value, but in reality is the same consumer only gets market ceiling value of 80%".

Figure 2. Web-Based Simulation on Gold Buyback in PT ANTAM

Source: <https://logammulia.com/>, PT Antam Website, November 2nd, 2023.

Figure 2 shows how much gold owner could get today, and how much it would cost. Let's try to do a simulation. For instance, On November 2nd, 2023, based on 100 grams, the buyback value for 100% ownership is IDR 99,967,000. But of course, IFI will not buy 100%, according to SEOJK No. 14/7/DPBs/2012, it allows 80%.

Table 3. Cash Receipt by The Consumer

Category FTV	Risk weight Adjusted	Cash Receipt by Consumer
FTV $\leq$ 50%	6 %	43,985,480 (99,967,000 x (50-6) %)
51 $\leq$ FTV $\leq$ 70 %	8 %	51,982,840 (99,967,000 x (60-8) %)
71 $\leq$ FTV $\leq$ 80 %	10 %	69,976,900 (99,967,000 x (80 -10) %)

Source: Author's calculations, based on 100 grams = Rp. 99,967,000

From Table 3 we simulate 3 points of FTV 50, 60, 80 %. 1.) Suppose consumer wants to sell their portion of 50%, then this percentage will be adjusted by 6% or 44%. It means that they agree to sell 50% of their gold portion to IFI with 43,985,480. The new ownership percentage will be 50 % for IFI: and 50% for consumers. 2.) Suppose consumer wants to sell their portion of 60%, then this percentage will be adjusted by 8% or 52%. It means that they agree to sell 52% of their gold portion to IFI for 51,982,840. The new ownership percentage will be 60 % for IFI: and 40% for consumers. 3.) Suppose consumer wants to sell their portion of 80%, then this percentage will be adjusted by 10% or 70%. It means that they agree to sell 80% of their gold portion to IFI for 69,976,900. The new ownership percentage will be 80 % for IFI: and 20% for consumers.

From the cash perspective, the consumer might receive less than pawn service, as our gold practitioner expert interviewee suggests a better trade-off by saying:

"....Consumers always look for higher cash, despite the higher interest they will be charged"

But we believe that since this hybrid contract has no *mu'nah* or storage fee must be charged, and it does not need monthly payment installment. Moreover, it has potential profit return from buy and sale activities. So, it will compensate the offering, consumer can choose which one is better and give better value and relieve the pain point of debt burden.

As our other expert interviewee completes that:

"This model will end the debate over hillah ribawiyah in Ar-rahn, since now we have an alternative model to offer. The easiness, debt, and installment free, make customer journey experience a more valuable offer rather than cash receipt only."

Case of the gold owner dies

In this case, the gold owner passed away before the due date. IFI does not force a sale upon the death of an owner; the death of an owner is not a trigger to repay. The estate or co-owner just needs to abide by the terms of the IFI Gold contract, which is enforced by the Deed of Trust that the party records on the gold contract. If a spouse of the owner is not on the title of the gold, we will have the spouse sign an acknowledgment and consent of the Agreement.

CONCLUSION

This conceptual model has managed to show differentiation from all other models in the market and has proven possible for potential new products in IFI to answer the challenge of bullion bank activity because of Act of Law No. 4 of 2023, with shariah-compliant brought on the issues. Notably, the models that have been proposed encompass the Shariah perspective. The novel ideas in gold product creation that are frequently found in the literature and the inventiveness of IFIs are usually restricted to

contract conversion of traditional equivalents Hybrid *musharakah* gold monetization differs far from a non-originality issue due to the adaption of the debt-based-traditional model and has compliance issues. This model will bring the ongoing debate over gold pawn service or the *Ar-Rahn* model to an end. IFI now has a new solution and attractive value to offer. The consumer has an alternative Sharia-compliant model to choose from and gives more benefits in terms of gold return.

Of course, realizing and implementing this model will take a lot of consideration from the parties involved. Regulation, procedure, risk management, and marketing will take place in order how this model can be implemented. Nevertheless, creating new shariah-compliant products that improve satisfied customer experience journey is essential for IFI to gain a competitive edge that operates in secular markets. IFIs are becoming more and more prominent players. In recent years, there have been a lot of challenges for IFIs. The introduction of gold monetization has spurred creative research in product development. Hopefully, this model will trigger another innovative research arising in the field of the IFI product model.

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