

Product and Distribution Channel Innovation to Enhance the Growth of Islamic Financing Companies in Indonesia

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ABSTRACT

Indonesia, with a Muslim majority population of 87.4% and a growing trend of halal lifestyle, presents a significant opportunity for the growth of Islamic financing companies. However, the market share of Islamic financing companies remains stagnant at 5-6%, despite a significant increase in public awareness of halal products. This study aims to develop product and distribution channel innovations to enhance the competitiveness of Islamic financing companies. The research focuses on refinancing products based on the al-bai' contract within the framework of musyarakah mutanaqishah (MMQ), which are flexible and relevant to the needs of millennials and MSMEs. Additionally, the study proposes innovations in distribution channels through the integration of financing simulations into corporate websites and mobile applications. The research methodology employs a descriptive qualitative approach, using primary data from DSN-MUI fatwas and secondary data from OJK reports. The findings indicate that Islamic refinancing innovation with al-bai' in the MMQ framework can provide a practical solution to current limitations of Islamic products while supporting broader Islamic financial inclusion. Digital distribution channels will enhance accessibility and convenience for target markets. Implementing these recommendations is expected to expand the market share of Islamic financing companies and address the evolving needs of society

INTRODUCTION

Social Development

According to data and information from the Public Relations Bureau of the Ministry of Religious Affairs of the Republic of Indonesia in 2022, Muslims account for 87.4% of the population. Almost all provinces in Indonesia have a Muslim majority population of over 50%, except for the following provinces: West Papua (38%), Southwest Papua (38%), North Sulawesi (32%), Papua (30%), South Papua (27%), Central Papua (12%), Highland Papua (2%), Bali (10%), and East Nusa Tenggara (9%). The Muslim population represents a significant potential market for Islamic finance, even though Islamic financial services are accessible to everyone regardless of religion.

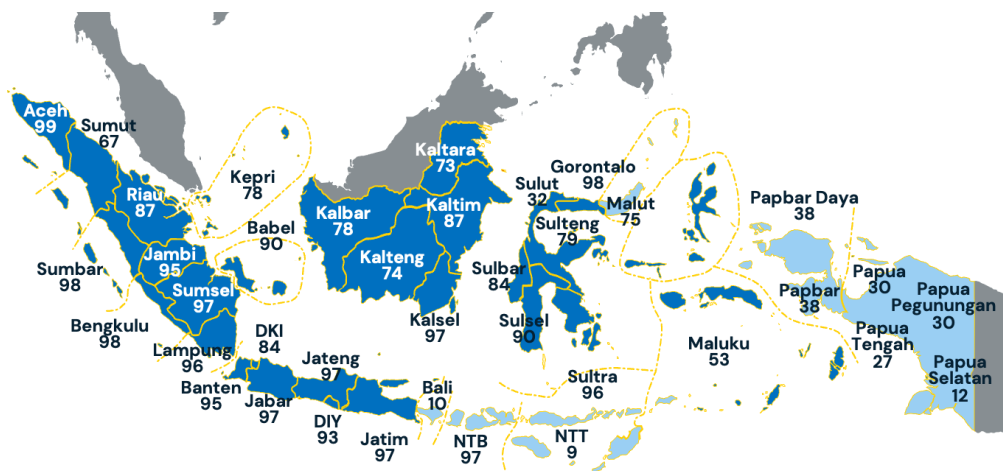


Figure 1. Percentage of Muslim Population in Each Province
Source: Ministry of Religious Affairs of the Republic of Indonesia, 2022,
Processed

The distribution of Muslim populations across provinces in Indonesia can serve as a key consideration for Islamic finance companies when designing distribution channels for their products. While the large number of Muslims represents a potential market, it does not necessarily guarantee strong sales of Islamic financial products. Factors such as product quality, customer service, and accessibility also play a significant role. Conversely, in regions where Muslims are not the majority, Islamic financial products can perform well if they offer superior quality, service, and processes compared to conventional products. This is supported by evidence that non-Muslims also purchase Islamic products.

Another aspect to analyze in Indonesia's social development is the evolving lifestyle trends. A survey of 770 urban Muslim respondents in seven cities (Jakarta, Bandung, Denpasar, Batam, Surabaya, Solo, and Manado) conducted by the Ministry of Religious Affairs (2013) found a very high level of awareness about halal concepts. These include the absence of pork, alcohol, human body parts, or impurities in products. Religious activities, the living environment, and educational background significantly influence this awareness. Furthermore, 95% of respondents expressed a desire for all circulating products to be guaranteed halal and supported halal certification for packaged food, beverages, and even restaurants.

Despite this high level of awareness, behavior towards consuming halal products varies. Only 73% of respondents check for halal labels before purchasing, 63% rarely or never consume products without halal labels, and 54% rarely or never dine at uncertified restaurants. Efforts to avoid consuming dubious packaged products and dining at suspicious restaurants are observed in 73%-78% of respondents. Proactive behavior, such as advocating for halal products and preventing non-halal ones, is practiced by 73%-79%. These patterns are attributed to the limited availability of halal-labeled products and certified halal restaurants. Only 67% of respondents find it easy to locate halal products, and 53% find it easy to find halal restaurants.

Findings from the Ministry of Religious Affairs highlight the high awareness of consuming halal products, corroborated by subsequent studies. Alimusa et al. (2023) concluded that awareness of halal products is a primary factor in purchasing decisions. Fadilah et al. (2020) found that knowledge and product halalness influence halal food purchases. Illahyana (2021) emphasized that respondents pay attention to halal labels from the Indonesian Ulema Council (MUI).

Additionally, Indonesian society strongly supports positioning Indonesia as a global leader in halal tourism. This was evident in the 2016 World Halal Tourism Awards (WHTA), where Indonesia won in all 12 categories it participated in. This achievement highlights public support for Indonesia as the Global Halal Tourism Leader, further solidified by the Global Muslim Travel Index (GMTI) 2023. Indonesia was ranked as the world's best halal tourism destination, surpassing 140 other countries, with a score of 73 in key categories such as Access, Communication, Environment, and Services (ACES).

The growing awareness of halal consumption, coupled with societal support for halal tourism, reflects a widespread halal lifestyle trend in Indonesia. This trend extends to hijab communities, halal cosmetics, Islamic entertainment, literature, and the proliferation of Islamic or sharia-compliant hotels. These developments underscore the increasing influence of halal lifestyle preferences among Indonesian society.

Beyond the growing halal lifestyle, it is essential to examine public responses to Islamic financial products. The Financial Services Authority (OJK) conducted a National Survey on Financial Literacy and Inclusion involving 9,680 respondents across 34 provinces and 64 cities/regencies (OJK, 2016).

The survey revealed that the overall financial literacy index stood at 29.66%, while the Islamic financial literacy index was significantly lower at 8.11%. Similarly, the overall financial inclusion index was 67.82%, whereas the Islamic financial inclusion index was only 11.09%.

Sectorally, the highest financial literacy index was recorded in banking (overall 28.94%; Islamic 6.63%), followed by insurance (overall 15.76%; Islamic 2.51%), pawnshops (overall 17.82%; Islamic 1.63%), financing institutions (overall 13.05%; Islamic 0.19%), and the capital market (overall 4.40%; Islamic 0.02%). The financial inclusion index was also highest in banking (overall 63.63%; Islamic 9.61%), followed by insurance (overall 12.08%; Islamic 1.92%), pawnshops

(overall 10.49%; Islamic 0.71%), financing institutions (overall 11.85%; Islamic 0.24%), and the capital market (overall 1.25%; Islamic 0.01%).

The Islamic financial literacy index for financing institutions (Islamic companies) was notably low at 0.19%, with an inclusion rate of 0.24%. This underscores the need for collaborative efforts to intensify campaigns promoting Islamic finance. According to the 2024 National Survey on Financial Literacy and Inclusion (OJK, 2024), the Islamic financial literacy index rose significantly to 39.11%, while the Islamic financial inclusion index reached 12.88%. However, this recent survey did not provide sectoral breakdowns of these indices.

These findings highlight the progress in public understanding and access to Islamic financial products but also reveal the significant work still needed to achieve widespread adoption and comprehension of Islamic finance in Indonesia.

Table 1. Islamic Financial Literacy and Inclusion Index, 2024

Index (Indonesia)	2016	2024
Financial literacy index	8,1%	39,11%
Financial inclusion index	11,1%	12,88%

Source: OJK, National Survey on Financial Literacy and Inclusion (SNLK) 2016, 2024

Based on the above explanation, the distribution of the Muslim population, public awareness of consuming halal products, support for positioning Indonesia as the global hub for halal tourism, the rising trend of hijab usage, and the growing popularity of Islamic hotels, entertainment, music, and films highlight the widespread embrace of the halal lifestyle in society. However, in terms of Islamic finance, the financial literacy and inclusion indices remain relatively low, even though the trend of growth in Islamic finance itself continues to show positive progress.

Development of Islamic Companies

Islamic Financing Companies are financing entities (business entities engaged in financing goods and/or services) whose operations are entirely based on Islamic principles. Meanwhile, Sharia Business Units (UUS) are divisions within the headquarters of financing companies that carry out Islamic financing and/or serve as the central hub for offices conducting Islamic financing activities. Islamic financing itself refers to the provision of financing based on Sharia principles, in accordance with Islamic legal rulings established through fatwas and/or compliance declarations by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) (POJK, 2019).

As of April 2023, there were four fully-fledged Islamic financing companies and 31 Sharia Business Units within financing companies (OJK, 2023). In terms of assets, as of August 2024, Islamic Financing Companies held assets amounting to IDR 33.67 trillion, or approximately 5.83% of the total assets of financing companies, which stood at IDR 577.77 trillion (OJK, 2024).

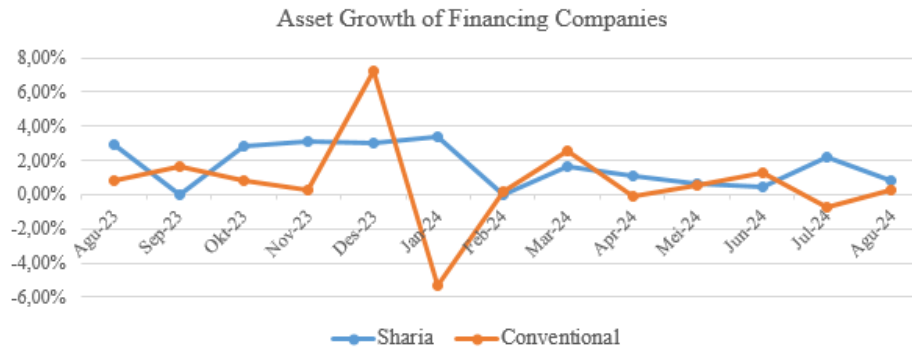


Figure 2. Asset Growth of Financing Companies
 Source: OJK, 2024, Processed

The asset growth of Islamic financing companies surpasses that of conventional financing companies; however, in terms of market share, they remain significantly behind conventional financing companies.

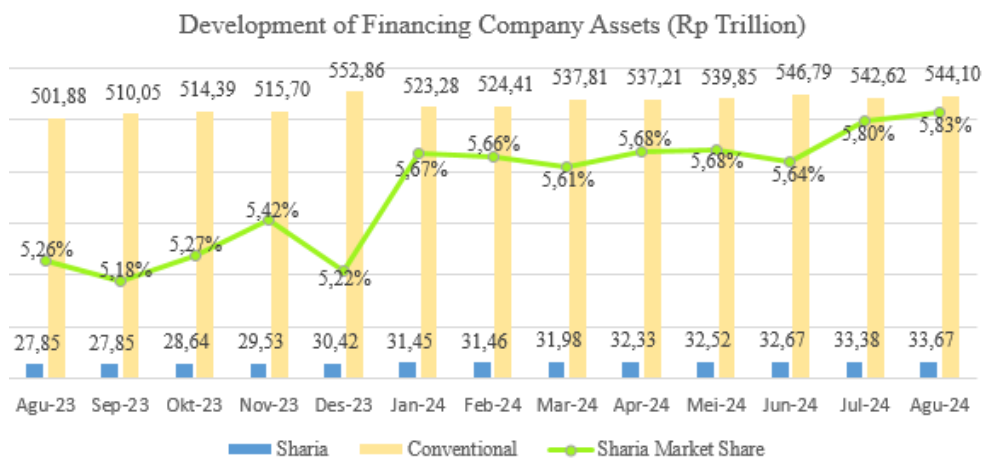


Figure 3. Development of Financing Comapny Asset
 Source: OJK, 2024, Processed

The assets of Islamic financing companies consistently increased from IDR 27.85 trillion in August 2023 to IDR 33.67 trillion in August 2024. A significant rise was observed from the end of 2023 to mid-2024. Meanwhile, conventional assets experienced minor fluctuations, with the largest increase recorded in December 2023 (IDR 552.86 trillion), followed by a slight decrease in January 2024 (IDR 523.28 trillion). By August 2024, conventional assets stabilized at approximately IDR 544.10 trillion.

The market share of Islamic financing showed a positive trend, growing from 5.26% (August 2023) to 5.83% (August 2024). A slight dip occurred in December 2023 (5.22%), but the market share recovered and steadily rose, reaching its peak of 5.83% in July-August 2024. However, the data indicates that the market share of Islamic financing companies has yet to surpass 6%.

Based on the explanation regarding social developments and the growth of Islamic financing companies, the following points can be summarized:

a. Large Muslim Population

Indonesia has a significant Muslim population (87%). In almost all provinces, over 50% of the population is Muslim, except for North Sulawesi, West Papua, Papua, Bali, and East Nusa Tenggara.

b. Halal Lifestyle Trend

The halal lifestyle is becoming a widespread trend in Indonesian society. This is evident in the increasing awareness of halal products, particularly food and beverages, strong public support for positioning Indonesia as the global leader in halal tourism, a rising trend in hijab usage, and the growing popularity of Islamic hotels, entertainment, music, and films.

c. Financial Literacy and Inclusion

d. While financial literacy and inclusion indices have improved overall, the indices for Islamic financing institutions remain very low, indicating room for significant improvement.

e. Stagnant Market Share

Despite these favorable conditions, the market share of Islamic financing companies remains stagnant at around 5%.

This analysis underscores the potential for growth in the Islamic financing sector, driven by social and demographic factors, yet highlights significant challenges in capitalizing on these opportunities to expand market share.

This issue arises because points a, b, and c represent significant opportunities and factors that can enhance the growth of Islamic financing companies. However, the reality shows that the market share remains stagnant at around 5%. Based on this problem, the author finds it essential to conduct research titled "Product and Distribution Channel Innovation To Enhance The Growth Of Islamic Financing Companies In Indonesia". The study aims to provide solutions to increase the growth of Islamic financing companies and support marketplaces to meet the needs of MSMEs, millennials, and the general public.

This research is particularly compelling because previous studies have mainly focused on optimizing Islamic banking or Islamic financial institutions (IFIs) in general. For example Ulum (2014); Soelton et al., (2021) explored product innovation in Islamic banking in Indonesia, concluding that innovations such as the Islamic Commodity Exchange significantly support the development of Islamic banking.

Yozika (2017); Saratian et al., (2017); Sihombing et al., (2019); Putro et al., (2024) investigated the development of financial and Islamic banking product innovations to maintain and enhance customer satisfaction. Key findings include: 1) Syndicated Financing: Financing provided to a single mudharib or debtor by banks collaborating under a musyarakah agreement. 2) Trade Finance Innovation: Facilities offered to finance trade activities of debtors related to international (export-import) and domestic trade. 3) Cash Management Products: Services aimed at managing financial flows. 4) Start-Up Financing: Support for businesses leveraging information technology for their products. 5) Business Development: A management function focused on growing the company's business and market presence. This study seeks to build upon and

extend the scope of existing research by focusing on innovations tailored specifically to Islamic financing companies and their distribution channels.

LITERATURE REVIEW

The article explores the role of product and distribution channel innovation in enhancing the growth of Islamic financing companies in Indonesia, focusing specifically on refinancing products based on the al-bai' contract within the framework of *musyarakah mutanaqishah* (MMQ). The study highlights the potential for Islamic finance to leverage Indonesia's substantial Muslim population and the growing trend of a halal lifestyle (Ramli et al., 2019; Saratian et al., 2022, Saratian et al., 2024). This lifestyle is evidenced by increasing public awareness and demand for halal products, such as food, cosmetics, and travel services. Despite this, the Islamic financial literacy and inclusion indices remain low, standing at 39.11% and 12.88% respectively in 2024, as reported by the Financial Services Authority (OJK). These gaps underscore the need for targeted innovations to make Islamic financial products more accessible and appealing.

The study proposes introducing flexible Islamic refinancing products tailored to millennials and micro, small, and medium enterprises (MSMEs), segments that are often underserved by conventional Islamic financial products like *murabahah*. The suggested innovation involves leveraging the al-bai' MMQ contract, which provides a dynamic ownership structure allowing gradual transfer of ownership while ensuring compliance with Islamic principles (Saratian et al., 2017). The article also emphasizes digital innovation in distribution channels, proposing the integration of refinancing simulations into company websites and mobile applications. This approach is expected to enhance accessibility and user convenience, particularly for tech-savvy millennials.

The research draws on primary data from DSN-MUI fatwas and secondary data from OJK reports to substantiate its findings. For example, the development of digital platforms aligns with the behavior of middle-class Muslim consumers, categorized by Yuswohadi et al. (2014) as Apathists, Conformists, Rationalists, and Universalists. Each consumer type requires tailored marketing strategies to increase adoption rates effectively. The findings indicate that these innovations could address the needs of underserved market segments while increasing the competitiveness and market share of Islamic financing companies, which have remained stagnant at 5-6%.

In conclusion, by developing Sharia-compliant refinancing products and enhancing digital distribution channels, Islamic financing companies can expand their reach and flexibility to meet the demands of MSMEs and millennials. This innovation not only promises to boost financial inclusion but also ensures compliance with Sharia principles, fostering sustainable growth within the Islamic finance sector in Indonesia.

METHODOLOGY

Research Approach and Type

The research method employed in this study is descriptive research, which is limited to uncovering problems and situations as they exist, focusing solely on the disclosure of facts (Wasito, 1993). The objective is to describe the characteristics of a situation at the time the research is conducted. This study utilizes a qualitative research approach, which generates descriptions in the form of written words (Moeloeng, 2001). It aims to identify product and distribution channel innovations for Islamic financing companies to support marketplaces in meeting the needs of MSMEs, millennials, and society in general.

Types and Sources of Data

The types and sources of data used in this study are as follows:

a. Primary Data

Primary data refers to the main reference material used to develop product and distribution channel innovations for Islamic financing companies. This includes fatwas issued by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI).

b. Secondary Data

Secondary data is obtained from reports or published data from the Financial Services Authority (OJK) and other relevant sources to support the research.

Data Collection Technique

Data was collected through a literature review technique, involving the exploration and examination of relevant literature. The researcher gathered data related to the subject of this study by reading and analyzing theories and facts pertinent to the research problem.

Data Processing Techniques

- a. Data Selection: Data selection was conducted after all data had been gathered to prevent errors in using the data for the study.
- b. Data Classification: Data was grouped to facilitate its use and support the drawing of conclusions.

Data Analysis Techniques

The data analysis technique used in this study is Content Analysis. The use of content analysis is not different from other qualitative research methods. However, since this technique can be applied to different approaches (both quantitative and qualitative), its application depends on these two approaches (Bungin, 2004).

This study is qualitative in nature, so the Content Analysis employed is Qualitative Content Analysis. Content analysis, also referred to as document analysis, involves analyzing data derived from documents to present useful information (Muhammad, 2005). To solve problems effectively, the data or information obtained must be organized or classified, analyzed, and interpreted with the aim of providing a systematic, factual, current, and accurate depiction of facts and activities related to the products and distribution channels of Islamic companies.

This method is employed considering that the study does not prioritize the quantity of data but rather emphasizes problem-solving by offering recommendations for product innovation and distribution channel strategies that can be adopted by Islamic companies.

RESEARCH RESULT

Millennials are defined as individuals born between 1980 and 2000 (Kemenpppa-BPS, 2018). Meanwhile, Micro, Small, and Medium Enterprises (MSMEs) have varying criteria depending on institutions such as the Central Bureau of Statistics (BPS), Law No. 20 of 2008 concerning MSMEs, and the World Bank. According to Law No. 20 of 2008, the classifications are as follows (Kemenkeu, 2012):

- **Micro Enterprises:**
 - a. Net assets of no more than IDR 50,000,000 (excluding land and buildings used for the business).
 - b. Annual sales revenue of no more than IDR 300,000,000.
- **Small Enterprises:**
 - a. Net assets of more than IDR 50,000,000 and up to IDR 500,000,000 (excluding land and buildings used for the business).
 - b. Annual sales revenue of more than IDR 300,000,000 and up to IDR 2,500,000,000.
- **Medium Enterprises:**
 - a. Net assets of more than IDR 500,000,000 and up to IDR 10,000,000,000 (excluding land and buildings used for the business).
 - b. Annual sales revenue of more than IDR 2,500,000,000 and up to IDR 50,000,000,000.

Millennials and MSMEs represent potential target markets for Islamic financing companies. These markets are also targeted by competitors, including both Islamic and conventional banks, Islamic and conventional pawnshops, and conventional financing companies.

In the introduction, the author highlighted the halal lifestyle trend in society. Before proposing product and distribution channel innovations, it is crucial to understand Muslim consumer responses to Islamic products. Yuswohadi et al., in their book *Marketing to the Middle-Class Muslim* (2014), categorized Muslim consumers into four types: Apathists, Conformists, Rationalists, and Universalists.

1. Apathists:

These individuals are indifferent to whether a product is Sharia-compliant. Their attitude can be summarized as "I don't care." They tend to prioritize affordability over compliance with Islamic values. They usually have low adherence to Islamic values and a limited understanding of Sharia products.

2. Conformists:

These consumers prefer products labeled as Islamic or endorsed by Islamic authorities or figures. They are highly devout and strictly adhere to Islamic principles, making them inclined to choose products with MUI halal certification because of their belief that "it must be Islamic."

3. Rationalists:

These consumers are highly analytical, focusing on the cost and benefits they receive. They tend to overlook Islamic values and approach products with the question, "What's in it for me?" Effective strategies for this group involve clearly communicating benefits without appearing didactic.

4. Universalists:

These individuals have a profound understanding of Islamic principles and practice them substantively. They prioritize Sharia principles, even for conventionally labeled products. Universalists adopt an Islamic lifestyle to achieve success in this world and the hereafter. Engaging this group requires transparency from the outset.

The responses from millennials and MSMEs toward sharia products, including those offered by Sharia Companies, are critical in shaping their offerings. Currently, the products offered by Sharia Companies are predominantly based on the murabahah principle. However, this principle has a significant limitation: it does not allow for margin adjustments in cases of rescheduling, making it less flexible for Sharia Companies. Meanwhile, SMEs and millennials require products that are both flexible and compliant with sharia principles.

Millennials and MSMEs, particularly those born in the 1980s, are typically established individuals who own assets such as motorcycles and/or cars. Their needs often extend beyond the scope of murabahah. For instance, consider a case where individual A, a millennial entrepreneur with an almost fully paid car loan, requires funds to rent a shop, open a new branch, purchase office equipment, or provide business capital. Such needs cannot be addressed effectively using the murabahah principle.

This scenario could be partially resolved using *ijarah* (lease-based contracts), but this solution would only apply to shop rental. Many such cases are encountered by Sharia Companies. To enhance the growth of sharia finance and meet the needs of MSMEs, millennials, and the broader community, it is recommended that Sharia Companies introduce sharia refinancing products based on contracts such as *musyarakah mutanaqishah*, *al-bai' wal isti'jar*, or *al-bai'* as part of *musyarakah mutanaqishah*, as stipulated in DSN-MUI fatwa No. 89. This paper will focus on sharia refinancing with the *al-bai'* contract as part of *musyarakah mutanaqishah*, abbreviated as "Al-Bai' MMQ." In the case of individual A, their needs could be met through this product.

The distribution of this product can be facilitated by integrating a sharia refinancing simulation using the Al-Bai' MMQ contract into the Sharia Company's website or mobile application. This approach would ensure ease of access and convenience for the target market, particularly millennials and MSMEs.

DISCUSSION

Product Innovation

Financing based on the Al-Bai' contract within the Musyarakah Mutanaqishah (MMQ) framework involves a process where one party purchases a portion of an asset (or capital) owned by another party (syarik) using the Al-Bai' contract. This establishes a partnership (syirkah) for the asset, forming the foundation of a joint venture (syirkah) capital (DSN-MUI, 2013).

In this product, the Islamic financing company purchases a portion of the customer's asset, creating a joint ownership (syirkah) that serves as the basis for a joint venture capital. The company and the customer then enter into a Musyarakah Mutanaqishah (MMQ) contract, with the asset divided into shares (hishshah/unit hishshah).

Key Requirements of Al-Bai' MMQ Financing:

1. The contract adheres to the principles of Al-Bai' and Musyarakah Mutanaqishah, including regulations outlined in DSN Fatwa No. 71/DSN-MUI/VI/2008 (Sale and Lease Back) and DSN Fatwa No. 73/DSN-MUI/XI/2008 (Musyarakah Mutanaqishah).
2. The Islamic financing company conducts a valuation (taqwim al-'urudh) of the customer's asset to determine a fair price for partial purchase.
3. The company purchases part of the customer's asset using the Al-Bai' contract, establishing joint ownership (syirkah).
4. Both parties enter into an MMQ contract, with the asset represented in shares (hishshah/unit hishshah).
5. Both parties act as partners (syarik), jointly providing capital to fund a specific business activity under the MMQ principle.
6. The proportion of ownership (hishshah) for each partner is explicitly stated in the agreement.
7. The company commits to gradually sell its share of ownership to the customer, who is obligated to purchase it as agreed.
8. Upon completion of the sale, full ownership of the asset transfers to the customer.
9. MMQ assets can be leased (ijarah) to the customer or third parties for an agreed rental value (ujrah).
10. Profits from the ujarah are distributed based on a pre-agreed profit-sharing ratio, while losses are allocated according to ownership proportions.
11. Profit-sharing ratios may adjust with changes in ownership proportions as agreed by the parties.
12. The reduction in the company's ownership portion due to customer payments must be clearly stated in the agreement.
13. Acquisition costs for MMQ assets are shared, while ownership transfer costs are borne by the buyer.
14. The financing term, fund repayment, and profit distribution schedule are determined through mutual agreement.

Legal Framework:

1. OJK Regulation No. 31/POJK.05/2014 on the Implementation of Islamic Financing Companies.

2. DSN-MUI Fatwa No. 89/DSN-MUI/XII/2013 on Sharia Refinancing.
3. DSN-MUI Fatwa No. 71/DSN-MUI/VI/2008 on Sale and Lease Back.
4. DSN-MUI Fatwa No. 08/DSN-MUI/IV/2000 on Musyarakah Financing.
5. DSN-MUI Fatwa No. 73/DSN-MUI/XI/2008 on Musyarakah Mutanaqishah.
6. DSN-MUI Fatwa No. 17/DSN-MUI/IX/2000 on Penalties for Capable Customers Who Delay Payments.
7. DSN-MUI Fatwa No. 43/DSN-MUI/VIII/2004 on Compensation (Ta'widh).
8. DSN-MUI Fatwa No. 85/DSN-MUI/XII/2012 on Promises (Wa'ad) in Financial and Business Transactions.

This product innovation provides a flexible financing solution for both MSMEs and millennials, addressing their needs while adhering to Sharia principles. The implementation can be visualized in a schematic representation for clarity.

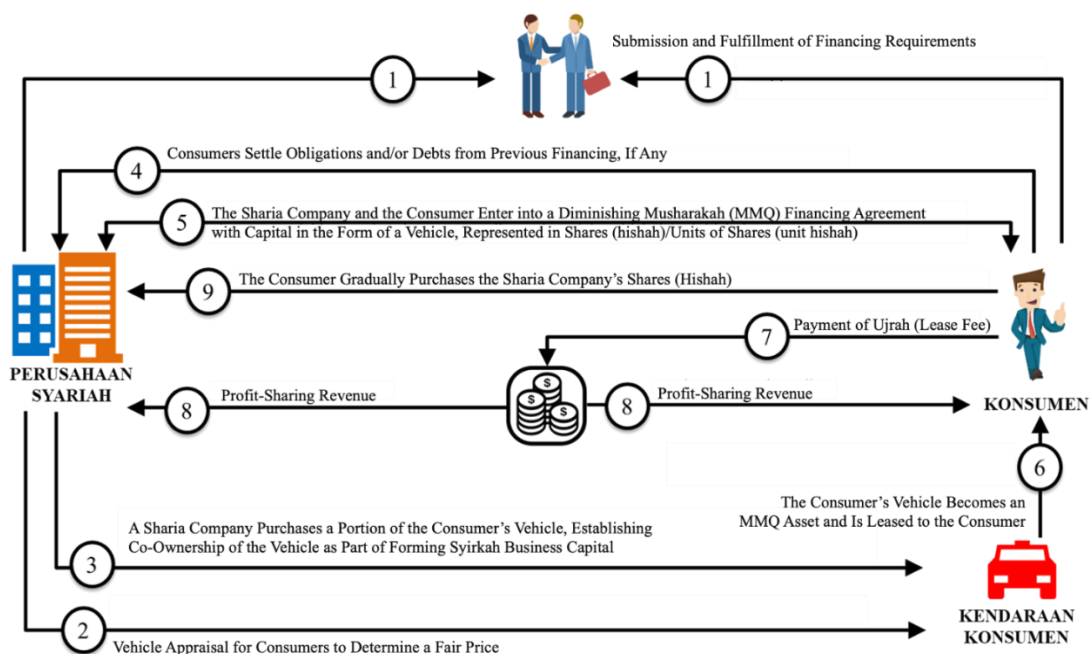


Figure 4. Schematic Representation

Scheme Description:

- 1) The Sharia Company and the Consumer negotiate and explain the terms of Al-Bai' financing within the framework of MMQ. Subsequently, the Sharia Company conducts a feasibility analysis for the financing.
- 2) The Sharia Company appraises the Consumer's vehicle to determine a fair market price for partial purchase by the Sharia Company. For example, the vehicle appraisal value is set at IDR 160 million.
- 3) The Sharia Company purchases a portion of the Consumer's vehicle, for example, 75%, worth IDR 120 million. This creates co-ownership (syirkah) of the vehicle as part of establishing partnership business capital, where 25% (worth IDR 40 million) becomes the Consumer's contribution.

- 4) The funds from the purchase of the vehicle portion by the Sharia Company are used to settle any existing obligations and/or debts related to previous financing, if applicable.
- 5) The Sharia Company and the Consumer enter into a Diminishing Musharakah (MMQ) financing agreement. The vehicle serves as the capital, divided into shares (hishshah). Example: The partnership capital totals IDR 160 million, with 75% (IDR 120 million or 120 shares) contributed by the Sharia Company and 25% (IDR 40 million or 40 shares) by the Consumer. Each share is valued at IDR 1 million, with a profit-sharing ratio of 60:40.
- 6) The Consumer's vehicle, now an MMQ asset, is leased back to the Consumer.
- 7) The Consumer, as the lessee, pays a lease fee (ujrah) to the jointly owned partnership (Sharia Company and Consumer). For instance, the monthly lease fee is IDR 1 million.
- 8) The lease revenue is distributed between the Sharia Company and the Consumer as profit-sharing income, based on the agreed ratio. The Sharia Company receives IDR 600,000. The Consumer receives IDR 400,000. The Consumer's profit-sharing income contributes to the installment payments for acquiring the Sharia Company's share of the vehicle.
- 9) In addition to profit-sharing payments, the Consumer makes monthly principal payments, e.g., IDR 10 million, to gradually acquire the Sharia Company's shares. At the end of the MMQ financing period, the Consumer fully owns the MMQ asset (the vehicle).

Distribution Channel Innovation

Distribution channel innovation can be achieved by integrating a Sharia refinancing simulation into the Islamic financing company's existing website or by developing a dedicated website. Alternatively, the simulation can be incorporated into the company's mobile application, or a separate mobile application specifically for Sharia refinancing can be created and made available for download on Android and iOS platforms.

Example Features:

1. Data Entry by the Customer:

The platform allows customers to input details about their assets and financing needs directly into the simulation tool.



The image shows a mobile application interface for data entry. It features a white background with a green border. There are seven dropdown menus stacked vertically, each with a downward-pointing arrow on the right side. The labels for the dropdown menus are: Asset, Brand, Type, Model, Year, Financing Needs, and Financing Tenor.

Figure 5. Example of Data Entry by Consumer

2. Simulation Results for the Customer:

After data entry, the system generates an estimated refinancing simulation that provides transparency regarding potential financing terms, profit-sharing ratios, and repayment schedules.



Figure 6. Example of Simulation Results Provided to the Consumer

By offering this Sharia refinancing product and integrating the simulation into the company's website or mobile application, Islamic financing companies can:

- Provide a broader range of flexible product options.
- Improve accessibility for MSMEs and millennials, regardless of their location.
- Enhance customer convenience through user-friendly digital platforms.
- This innovation aligns with the needs of modern consumers and expands the company's reach to underserved markets while maintaining compliance with Sharia principles.

Financing Example

Mr. A, a millennial and owner of a medium-sized business, owns a Toyota Cayla and needs IDR 60 million for business capital and renovations. Mr. A also has an outstanding car loan balance of IDR 10 million. The Financing Simulation is as follows:

Table 2. Financing Simulation

Value of Goods	IDR	100,000,000	
Initial Capital Portion (Hishshah) of the Sharia Company	IDR	71,500,000	
Initial Capital Portion (Hishshah) of the Consumer	IDR	28,500,000	
Price per Hishshah Unit	IDR	1	
Hishshah Portion of the Sharia Company		71,500,000	Hishshah Unit
Hishshah Portion of the Consumer		28,500,000	Hishshah Unit
Lease Income (Ujrah)	IDR	17,261,024	
Sharia Company's Ujrah	IDR	6,860,000	
Initial Profit-Sharing Ratio of the Sharia Company		72%	
Initial Profit-Sharing Ratio of the Consumer		29%	
Administration Fee	IDR	1,500,000	
Prepayment	IDR	10,000,000	
Monthly Installment	IDR	6,530,000	
Tenor		12	Months

Source: Financing Information, Data Processed (2024)

The refinancing simulation can address Mr. A's financial needs using the Al-Bai' Musyarakah Mutanaqishah (MMQ) contract. The simulation calculates the refinancing terms, including the outstanding debt settlement, partnership capital formation, and profit-sharing.

Financing Information:

- Asset: Toyota Cayla
- Refinancing Need: IDR 60 million
- Outstanding Loan Balance: IDR 10 million

Installment Schedule:

Details of the financing structure, including monthly installments and profit-sharing ratios, are presented in a financing schedule table.

Table 3. Example of Financing Installment

Installment Number	Sharia Company's Capital Portion	Consumer's Capital Portion	Sharia Company's Profit-Sharing Ratio	Consumer's Profit-Sharing Ratio	Lease Income (Ujrah)	Sharia Company's Ujrah	Consumer's Ujrah	Repayment of Sharia Company's Capital Portion	Total Installment
1	71,500,000	28,500,000	72%	29%	1,438,419	1,028,469	409,949	5,501,531	6,530,000
2	65,998,469	34,001,531	66%	34%	1,438,419	949,334	489,084	5,580,666	6,530,000
3	60,417,804	39,582,196	60%	40%	1,438,419	869,061	569,358	5,660,939	6,530,000
4	54,756,865	45,243,135	55%	45%	1,438,419	787,633	650,786	5,742,367	6,530,000
5	49,014,497	50,985,503	49%	51%	1,438,419	705,034	733,385	5,824,966	6,530,000
6	43,189,531	56,810,469	43%	57%	1,438,419	621,246	817,172	5,908,754	6,530,000
7	37,280,777	62,719,223	37%	63%	1,438,419	536,254	902,165	5,993,746	6,530,000
8	31,287,031	68,712,969	31%	69%	1,438,419	450,038	988,380	6,079,962	6,530,000
9	25,207,070	74,792,930	25%	75%	1,438,419	362,583	1,075,835	6,167,417	6,530,000
10	19,039,653	80,960,347	19%	81%	1,438,419	273,870	1,164,549	6,256,130	6,530,000
11	12,783,523	87,216,477	13%	87%	1,438,419	183,881	1,254,538	6,346,119	6,530,000
12	6,437,403	93,562,597	6%	94%	1,438,419	92,597	1,345,822	6,437,403	6,530,000

Source: Data Processed (2024)

Based on the financing installment table above, it is evident that asset ownership gradually transfers from the Sharia company to the consumer through monthly installments. The column for the Sharia Company's Capital Portion shows the decreasing ownership portion of the Sharia company as installments are made. Conversely, the Consumer's Capital Portion increases with each installment payment.

The increase in the Consumer's Capital Portion results in a higher profit-sharing ratio and ujarah (lease fee) for the consumer. The Sharia Company's Profit-Sharing Ratio starts at 72% in the first installment and decreases to 6% by the last installment, while the Consumer's Profit-Sharing Ratio increases from 29% in the first installment to 94% in the last installment. The Lease Income (Ujrah) represents a fixed monthly rental income of IDR 1,438,419, reflecting the consumer's payment for using the asset (vehicle lease fee). The Sharia Company's Ujrah is the portion of the lease income belonging to the Sharia company, which decreases as their ownership portion declines.

The Repayment of the Sharia Company's Capital Portion represents the principal amount paid by the consumer each month to reduce the Sharia company's ownership. This amount increases over time as the consumer's ownership portion grows. The Total Installment is a fixed monthly payment of IDR 6,530,000, consisting of lease income and principal repayment. At the end of the financing tenor (12 installments), the consumer will have fully repaid the

Sharia company's capital portion, and the asset will become the full property of the consumer.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

The innovation of Islamic financing products and distribution channels involves the development of a Sharia refinancing product based on the Al-Bai' Musyarakah Mutanaqishah (MMQ) contract. This product can be distributed through digital platforms, such as company websites and mobile applications.

This approach is expected to enhance the reach and flexibility of Islamic financing companies, enabling them to meet the needs of MSMEs and millennials more effectively, while contributing to the broader marketplace and ensuring compliance with Sharia principles.

Recommendation

Practical Perspective

Implementing innovative products like al-bai' MMQ-based refinancing is critical to meeting the needs of millennials and MSMEs, providing flexibility and Sharia compliance. Digitalization is another priority, with the introduction of user-friendly platforms for financing simulations that enhance transparency and accessibility. Targeted marketing strategies should address various consumer profiles (e.g., Apathists, Conformists, Rationalists, Universalists) to effectively communicate the benefits of Islamic financing. Concurrently, capacity-building initiatives for company personnel will ensure competent communication of product features and principles.

Policy Perspective

Regulatory bodies should foster innovation through regulatory sandboxes, enabling testing of new financial products like MMQ-based refinancing. Policymakers must collaborate with stakeholders like the Financial Services Authority (OJK) and the National Sharia Council (DSN-MUI) to launch nationwide campaigns aimed at improving Islamic financial literacy and inclusion. Furthermore, incentives such as tax benefits or grants should be provided to companies adopting digital solutions, promoting modernization and expanded service outreach. Strengthened regulatory monitoring is equally necessary to ensure Sharia compliance while protecting consumers. These combined efforts will enable Islamic financing companies to address market challenges, tap into the potential of Indonesia's growing halal economy, and achieve sustainable market growth.

FURTHER STUDY

Theoretical Perspective

Further exploration of the al-bai' contracts within the framework of musyarakah mutanaqishah (MMQ) is essential to address gaps in flexibility and inclusivity. Additionally, research should delve into the relationship between the growing halal lifestyle trend and its influence on Islamic finance adoption, while also formulating frameworks for digital integration in Islamic financial services.

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