







“The effect of Al-Bai’ and wadiah contracts on sharia compliance and the sharia banking system performance through the Maqashid Index in sharia banks in Indonesia”

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THE EFFECT OF AL-BAI' AND WADIAH CONTRACTS ON SHARIA COMPLIANCE AND THE SHARIA BANKING SYSTEM PERFORMANCE THROUGH THE MAQASHID INDEX IN SHARIA BANKS IN INDONESIA

Abstract

This study sought to test and find empirical evidence on the effect of Al-Bai' and wadiah contracts on sharia compliance and the performance of sharia banking system through the Maqashid sharia index. The study employed the explanatory research design, aimed at explaining a causal relationship among variables using a quantitative approach. The Partial Least Square (PLS) model was used as the analysis method to answer the hypotheses of this study. The authors found out that increases and decreases in wadiah contracts did not influence the financial performance of sharia banks. Another finding also showed that Al-Bai' and wadiah contracts and sharia compliance had a significant effect on the performance of public sharia banks. This result evidenced that the concept of an Islamic bank should be a mediator, which should neither allow profiting from the fund, nor should be used to invest in the real sector of various funding systems.

Keywords

financing, funding, sharia compliance, Islamic bank
performance

JEL Classification

G21, G29

INTRODUCTION

Sharia fund banks are unique entities with characteristics that differentiate them from conventional financial institutions. Sharia banking system was initially introduced in Indonesia with the establishment of Bank Muamalat Indonesia in 1992. At that time, sharia banks were not yet protected by strong legal laws, which particularly covered the law of sharia banking system. The establishment of sharia bank in Indonesia has strengthened the banking industry in terms of its role in the economic development and protection of the national financial stability. Therefore, in order to build stable highly-competitive sharia banks, the system of sharia banking must be developed and improved. As the form of entities that apply muamalah principles, which rely on sharia regulations and have different characteristics from the conventional system, the sharia financial system is considered to be risky. Thus, caution is a crucial key to keep in mind related to the strict application of the sharia compliance aspect as an attempt to prevent cheatings or intentional ignorance done to deceive, cheat, or manipulate banks, clients, or other parties involved in the banking system. Thus, carefulness principles, good monitoring system, anti-fraud conceptual strategies, audit implementation in both financial reports and audit on sharia compliance are important aspects to consider.

The development of sharia banking in Indonesia is evident from the increased number of sharia banks. Based on the statistical data released by state financial authorities in November 2014 (source: Bank Indonesia), Indonesia has 12 public sharia banks, 22 sharia business enterprises, and 163 sharia funding institutions.

Riba relates to any illegal profit that is obtained from quantitatively imbalance values. Islam preachers have set the prohibitions from riba as something that is not only related to God's will, as well as an integrated part of the Islamic economy system that covers the ethics, objectives and values within the system such as transactions performed through barter or exchange over the agreed time.

Financial products in sharia banks can be divided into two categories, such as debt financing and equity financing. Financing is a basic service of banks that influences bank performance: the better the financing of a bank, the better its performance. It is closely related to clients' satisfaction and trust, which grow along with the improved bank performance. However, financial products of sharia banks also suffer from some problems, especially in the beginning of 2014, when sharia banks faced tremendous challenges. Unfavorable macroeconomic conditions of Indonesia have impacted the financial aspect, which decreased clients' finance. Implementation of the sharia banking system, which is deviated from the original principles of sharia banking, triggered financial frauds.

Some problems appeared related to the sharia-compliance completeness in the murabahah contract of sharia banks in terms of the double taxation, which takes place while implementing murabahah system, time limitation of murabahah product, high administration expense, payment that is bounded to time limitation (the implementation of "time value of money" principle in the payment system). Double taxation is not the only problem of sharia compliance. There is also another problem of sharia banks which is related to the derivative transactions from the conventional system. Meanwhile, the number of members of the council of sharia counselors responsible for monitoring the work of sharia banks is limited; the staff also holds other functions, making them unable to focus on their main role. Moreover, there are also problems related to the lack of improvement in the quality of Islamic financial organizations, including sharia banks, sharia insurance, capital market, pawnshops, and non-bank sharia financial organizations. There are also other quality and quantity deviations of Islamic banking system, causing sharia non-compliance, other business interests to gain more profit, since in the meeting the stakeholders, bank's profit is the main indicator of the improved bank performance. Therefore, the main orientation of a company or an organization is to put the interest of the shareholders at the first place instead of gaining the benefits from the organization's function such as the intermediary finance and the interests of the stakeholders (suppliers, clients, employees, producer, associate partners, regulator, etc.).

Financial programs in the context of sharia banking system consist of deposit accounts, clearing accounts, and savings accounts. Given the contracts, financial programs can be classified into several wadiah types: first, the wadiah yadamanah, which refers to goods/money deposit, when debtors are not allowed to use the deposited goods/money and are not responsible for any damage or loss on the deposited goods/money due to wrong actions or negligence of the debtor. Secondly, the wadiah yadamanah, which refers to contract, according to which debtors of deposited goods/money are allowed to use goods/money with or without the permission of the owners, and debtors are responsible for any loss or damage of the goods/money. Basically, wadiah implements the mutual assistance principle. Thus, wadiah contracts are the called amanah-based system. Besides, the performance of sharia banks can be assessed from the financial aspect using conventional method; it can also be assessed in terms of the aspects related to the objective of the sharia banking system (maqashid sharia). The implementation of maqashid shairah by sharia banks has received great attention from sharia economic system observers even though the number of research on this topic is still low.

The results of the studies showed that the Maqashid sharia index can be used as an important alternative to measure the performance of sharia banks, the result of which can be used to take into account the

improvements to be implemented in the form of comprehensive strategies. Using the Maqashid sharia index, not only the financial performance aspects will be measured, but the index can also be used to measure the social and environmental performance of banks. When measuring the performance of sharia banks, researchers should not only focus on how big profits banks receive, they also should consider the compliance of the bank with the principles of sharia banking and the objectives of the banks.

1. LITERATURE REVIEW

Rose and Kolari (1995) stated that the performance of sharia banks that are free from bank interests in terms of their business development, profitability, liquidity and solvability is better than that of conventional banks that implement the bank-interest system. Indeed, nowadays, bankers and their competitors are under severe pressure to keep up with the best performance.

Al-Imam al-Ghazali stated that the concept of Maqashid sharia protects the objectives of the sharia system as the basic regulations to live, protects the society from any threats to their stability of life and improving the society's prosperity. Meanwhile, Al-Imam al-Syathibi stated that the concept of al-maqashid is divided into two categories. Firstly, the concept is related to the God's will as the creator of the sharia. Secondly, it relates to mukallaf (life). Allah the almighty God intends the sharia to be used to improve the life of human on earth and in the afterlife. Mukallaf refers to the God's will for the humans to live their life in this world and in after life prosperously by maintaining five aspects, which are the religion, spirit, logic, descendants, and wealth.

Arifin (2009) stated that the meaning of sharia compliance in the context of sharia banking is the "implementation" of Islamic principles, sharia and its traditions within the financial transactions, banking and other business. Asrori (2011) said that sharia compliance is one of the Islamic indicators to guarantee the compliance of sharia banks with the Islamic sharia principles. The author indicates that the sharia compliance is the form of compliance with the Islamic Ruling of National Sharia Council, since the rules issued by National Sharia Council are the realizations of sharia principles and regulations that should be obeyed. Etymologically, the word Al-Bai' means bartering belongings with belongings. Meanwhile, terminologically, Al-Bai' means the exchange of

belongings with facilities and comforts. Selling is seen as an act to move someone's belongings to other people by adding price, while buying is receiving the belongings. The holy book of Quran states that Allah and Rasulullah PBUH stated in his holy Sunnah that the muamalah laws are made to fulfill the needs of humans toward the life necessity such as food to stay healthy, clothes, houses, vehicles and other needs to pursuit prosperous life.

The word wadiah is derived from its original word wadi'ah, which means pure amanah (trust) given from someone to other ones either between individuals or organizations, which has to be managed in such ways that the trust should be ready to be taken back by the depositor at any time. Wadiah means amanah or trust, since Allah has mentioned the word wadiah interchangeably with the word amanah in some verses of Quran.

Using the Maqashid sharia index approach, this study examined Al-Bai' (trading) contracts and wadiah contracts implemented in the sharia banking system in Indonesia and their relations with the sharia compliance and performance of the sharia banks. This study is conducted in the form of descriptive study and case study, aimed at describing the features of certain phenomena that occurred and at investigating the causal relationship of some events with certain objects within a certain time period (Umar, 2005). This descriptive study is aimed at investigating and finding as much information as possible on certain phenomena. The study introduced the measurement model that can be used to measure the performance of sharia banks using the Maqashid sharia index approach to complete the existing financial measurement.

The attachment of "sharia" label indicates that a bank is committed to offer banking services based on the compliance to sharia regulations and principles (Archer & Karim, 2007). The Islamic sharia system is a universal regulation, whose implemen-

tation is not limited to certain areas. Sharia banks are expected to fulfill the criteria of “*adl*” (fairness), “*amanah*” (trustable), and “*ihsan*” (goodness), (Beekun & Badawi, 2005), and they should actively promote fairness and prosperity for the people and gain blessings from Allah the God Almighty (Hassan & Harahap, 2010), achieve the social goals, promote Islamic values for all of the employees, clients and the people, give real contribution to achieving high social prosperity through continual development and poverty alleviation (Abdullah, 2007). Ibrahim (2009) literally stated that *riba* refers to the attempts of multiplying profit either quantitatively or qualitatively.

This case has created perception among the clients that there is no fundamental difference between sharia banking system and the conventional interest system (Alim, 2011). A study was conducted by Zaharah et al. (2014) on the impact of debt financing and equity financing on the performance of sharia banks in Indonesia. It was shown that debt financing had a significant effect on the performance of sharia banks. This finding is in line with the Rahman and Rochmanika (2012), who stated that debt financing positively correlates with the profit of sharia banks. On the other hand, Purnamasari (2009) found that *murabahah* (debt financing) did not influence the profit of sharia banks.

Besides good assessment of the financial aspects, sharia banks also need to achieve the aspects of *maqashid sharia* (Mohammed & Taib, 2009). The implementation of the *maqashid sharia* concept within the performance of sharia banks is considered crucial, since most of sharia banks are still using financial ratios, which are derived from the system of conventional banks that cannot be used to evaluate all the dimensions of sharia banks. This view is also supported by the research findings of Samad and Hasan (2018). Mohammed et al. (2008) have formulated a measurement that can be used to measure the performance of sharia banks based on the objectives and the principles of *maqashid sharia* as a valid and reliable measurement of sharia banks and the objectives of the banks. The research resulted in a set of measurements consisting of ten ratios called *Maqashid sharia index*. Attempts to make *maqashid sharia* the measurement to evaluate the performance of sharia banks were also conducted by Antonio et al.

(2012), Mughess (2008) and Hamed et al. (2004). Mohammed (2008) made a measurement of the implementation of *maqashid* in sharia banks in the form of *Sharia Maqashid Index (SMI)*. The *maqashid sharia* that was measured in this study was the concept of *maqashid sharia* as explained by Abu Zahrah (1958) in his book “*Ushul Fiqh*”, in which he explained the concept of *maqashid sharia* more comprehensively.

This objective can be achieved when the following five basic conditions are fulfilled, including: a) deep comprehension on religion, (b) self-control, (c) knowledge, (d) family affection, and (3) wealth. To achieve and improve those five conditions, Syatibi in *al-Muwafaqat fi Ushul al-Syari'ah* divided the necessities into three levels. The first level is the primary needs (*dharuriyat*), which refer to anything that has key function to the life of the human and their prosperity. When this necessity is not fulfilled, human will have messy and unprosperous life either in the world or in after life.

Capra (2001) stated that to achieve the *maqashid sharia*, a sharia bank should be able to maintain the *al-aql* (logic), *addien* (religion), *nafs* (spirit), *nasl* (descendants), and *maal* (wealth). Al-Zuhaili (Ika & Kadir, 2014) stated that *maqashid al sharia* is the values and the objectives of sharia system, which are implicitly stated in the law of sharia system. Those values and objectives are often seen as secret targets and objectives of the sharia system. *Maqashid sharia's* functions as the objective of the system should be oriented to improve the prosperity of the people. Research done by Ahmad and Azman (2011) on the implementation of *wadiah* contracts in some financial organizations in Malaysia showed that a modern *wadiah* agreement is constructed upon different principle from the original *wadiah* contract. The original *wadiah* contract sticks to the principle of *amanah* (trust), while the contemporary *wadiah* contract is made based on *Daman* (obligation), which is similar to the concept of leasing. Wajdi (2008) also find similar result on the financial transactions in the application of sharia banking system. Therefore, this study considered that the concept of *maqashid sharia al-Syatibi* is key for the basis of theory of research related to economics and sharia business to solve various problems to keep the economic stability on the right track based on the sharia compliance and *maqashid sharia*.

2. METHODOLOGY

This research introduced the measurement model of sharia compliance index and measurement of the performance of sharia banks based on the framework of maqashid sharia to complete the existing bank-performance measurement model. A previous research done by Mohammed (2008) has proven that the most suitable concept used to develop ideas and measure the performance of sharia banks based on the of maqasid syariah framework was the concept of maqashid sharia. This was shown by Abu Zahrah (1958) in the book “Ushul Fiqh”, which explained the concept of maqashid sharia in a broader and general concept. Based on the book, the concept of maqashid sharia has three objectives, which are Tahzib al-Fardi (educating humans), Iqamah Al adl (justice enforcement) and Jalb Maslahah (public interest), measured using several parameters based on those three aspects using the measurement method.

The data of this study were obtained from the official website of each entity. The data taken from

the website were also completed with the data from the Bank Indonesia and Indonesian Bank and Financial Institution Information or IBIS. The objects of this study were all the public sharia banks in Indonesia. The samples chosen were eight sharia banks out of twelve in Indonesia which issued their financial reports on an annual basis. The data analyzed in this study were the secondary data obtained from the annual financial reports, which had been audited. The audited annual financial reports provided real and detailed data that were used to measure the ratios that needed more specific data. This study was conducted from 2010 to 2014.

Partial least square analysis is a method that was constructed based on the unity of regression as proposed by World to provide measurement model that could be used to measure the data of social studies using a prediction-based approach. The hypothesis on the mediating variables was tested using the Sobel test procedure. Sobel test was employed to verify the significance of the indirect effect path coefficient.

Table 1. Evaluation of the Maqashid sharia index performance

Source: Mohammed et al. (2008).

Sharia goal	Dimension (D)	Element (E)	Performance ratio (R)	Reference
Tahzib al-Fard (Education of an individual)	D1 Knowledge advancement	E1 Education grant	$R1 = \frac{\text{Education grant}}{\text{Total expense}}$	Annual report
		E2 Research expense	$R2 = \frac{\text{Research expense}}{\text{Total expense}}$	Annual report
	D2 Instilling new skills and improvement	E3 Training expense	$R3 = \frac{\text{Training expense}}{\text{Total expense}}$	Annual report
	D3 Creating awareness of Islamic banking	E4 Publicity expense	$R4 = \frac{\text{Publicity expense}}{\text{Total expense}}$	Annual report
Iqamah al-Adl (Establishing justice)	D4 Fair returns	E5 Fair returns	$R5 = \frac{\text{Profit equalization reserves PER}}{\text{Net or investment income}}$	Annual report
	D5 Cheap products and services	E6 Functional distribution	$R6 = \frac{\text{Mudharabah and Masyarakat models}}{\text{Total investment mode}}$	Annual report
	D6 Elimination of injustices	E7 Interest free product	$R7 = \frac{\text{Interest free income}}{\text{Total income}}$	Annual report
Jalb al Maslahah (Public interest)	D7 Bank profitability	E8 Profit ratios	$R8 = \frac{\text{Net income}}{\text{Total asset}}$	Annual report
	D8 Redistribution of income and wealth	E9 Personal income	$R9 = \frac{\text{Sakat Paid}}{\text{Net Income}}$	Annual report
	D9 Investment in real sector	E10 Investment ratios in real sector	$R10 = \frac{\text{Investment in real economic sectors}}{\text{Total investment}}$	Annual report

3. RESULTS

The term of Al-Bai' contract financial product during 2010–2014 averagely reached 15.50%, at maximum value of 17.19% and minimum value of 14.63%. This showed that the proportion of the funding through Al-Bai' in five years only reached average percentage of 15.50% per year. The highest percentage of Al-Bai' funding contract was found in 2014 at 17.19% and the lowest one was in 2012 at 14.63%.

The average ratio of wadiah funding from 2010 to 2014 (five years) was found at 14.20%, in which the increase of the third party's fund was quite fluctuating during the years of the period under study. The lowest percentage of wadiah ratio was found in 2010 at 13.81% and reached the highest percentage of 15.19% in 2013.

The average value of sharia compliance within the context of sharia banking in 2010–2014 was found at 19.20% with maximum value of 25.88% and minimum value of 16.38%. The result showed that the level of sharia compliance was quite low, which could indicate that sharia banks did not obey the sharia regulation, including non-compliance to the sharia principles as set by the Accounting and Auditing Standard of Islamic Financial Institutions (AAOIFI) (1998).

The average ratio of the performance of sharia banks measured using the Maqashid sharia index approach during 2010 to 2014 was found at 12.52% with the highest value of 15.36% in 2014 at and the

lowest value of 7.55% in 2014. This indicated that the performance of sharia banks was still low.

The first hypothesis test indicates that the direct effect of Al-Bai' contract (X1) on the performance of sharia banks (Y2) could be proven by the correlation coefficient value of -0.152 and p-value of 0.295 . This indicated that the correlation was not significant. Therefore, it can be concluded that the increase or decrease in the financial programs made upon the Al-Bai' contract has no significant impact on the performance of sharia banks. Thus, the first hypotheses proposed in this study cannot be accepted, or it is supported by empirical facts. Imam Ibnu H. stated that "it is forbidden to do trading by putting the goods that are bought as the warranty" (Al Fatawa al Fiqhiyyah al Kubra, II/427). It means that people are not allowed to put objects that are being traded as the guarantee goods of the trading itself.

According to the second hypothesis test, the direct effect of wadiah contract (X2) on the performance of sharia banks (Y2) was proven by the obtained correlational coefficient value of -0.109 and p-value of 0.212 , which indicated that there was no any significant effect of X1 on Y2. This result implies that any increase or decrease in deposited fund based on wadiah contract does not have any significant impact on the performance of sharia banks. This result also implies that the second hypothesis cannot be accepted, or it is rejected due to the lack of supporting empirical facts. The concept of the wadiah contract implemented by sharia banks is deviated from the concept of wadiah as explained

Table 2. Research results

Influence of variables	Path coefficient	T-statistics	P-value	Description
Uqūd al-Bai' → maqashid sharia	-0.152	1.046	0.295	Not significant
Uqūd Wadiah → maqashid sharia	-0.109	1.248	0.212	Not significant
Uqūd al-Bai' → compliance	0.644	14.390	0.000	Significant
Uqūd Wadiah → compliance	0.286	3.293	0.001	Significant
Compliance → maqashid sharia	0.778	6.492	0.000	Significant

Table 3. Test results on the mediating variable: the coefficient of indirect influence with the Sobel test

No.	Independent variable	Mediating variable	Dependent variable	Sobel test > 1.96	P-value	Description
1	Uqūd Al-bai' (X1)	Sharia compliance (Y1)	Performance of Sharia banking (Y2)	5.8961	0.000	Significant/partial mediation
2	Uqūd Wadiah (X2)	Sharia compliance (Y1)	Performance of Sharia banking	2.1605	0.030	Significant/perfect mediation

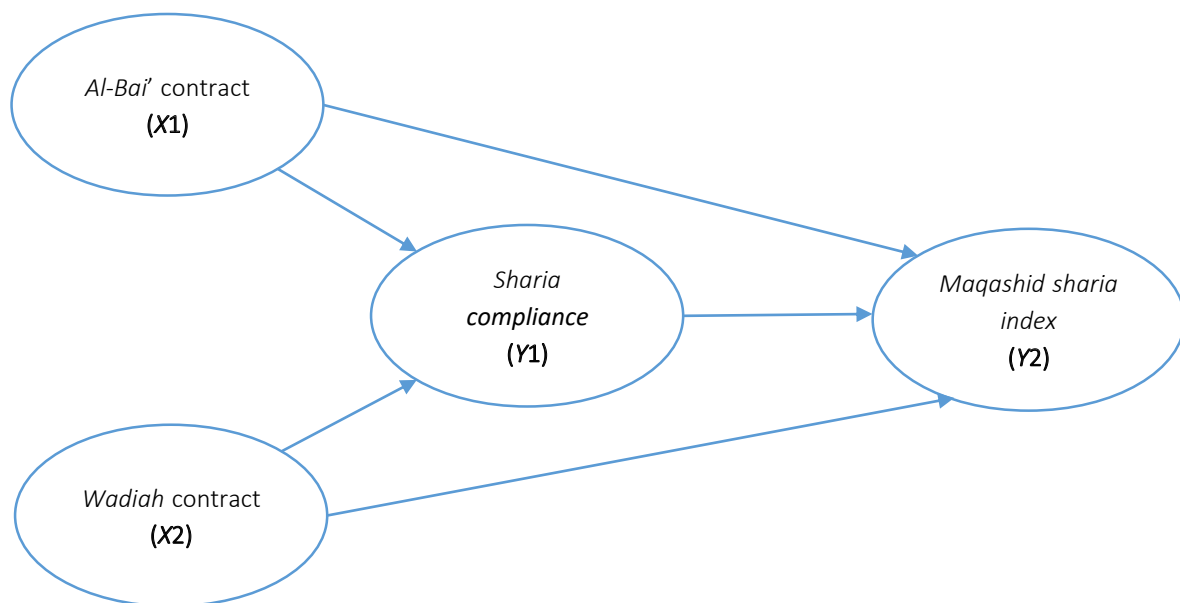


Figure 1. The conceptual framework

in fiqh books. The concept of wadiah contract that is being implemented by sharia banking system is more similar and more relevant to the concept of dain (secured debt), since banks make use of clients' money to invest in their projects. In this concept, clients are exempted from any risks that might harm their money. Therefore, some modern ulama have criticized the name of wadiah contract to label this system. As a solution, they proposed to use other terms for this system, such as al-hisab al-jari or similar to the English term 'account'.

The test on the third hypothesis shows the indirect effect of Al-Bai' contract (X1) on the performance (Y2) of sharia banks through the sharia compliance (Y1) as a mediating variable. The result of the test showed that the direct coefficient value of 0.64 and the value of Sobel test were found at 5.8961 > 1.95 and p -value at 0.000. The result also showed that the sharia compliance partially mediated the effect of Al-Bai' contract toward the performance of sharia banks at a significant rate. Thus, it can be concluded that the increase in the financial programs based on the wadiah contract, which was mediated by the sharia compliance, had a significant impact on the performance of sharia banks. Therefore, the third hypothesis of this study is accepted or it is supported by empirical facts. The study results indicate that the higher the sharia compliance, the higher its impact on mediating the correlation between the Al-Bai' contract and

the performance of sharia banks. Arifin (2009) stated that the meaning of sharia compliance within the context of sharia banks refers to the "implementation of Islamic principles, sharia and its traditions in any process of financial transactions, banking system and other related business".

According to the fourth hypothesis test, there is an indirect effect of wadiah contract (X2) on the performance of sharia banks (Y2) through the sharia compliance (Y1), since the mediating variables showed the correlational coefficient value toward the sharia compliance was at 0.286 and sobel test value at 2.1605 > 1.96 and p -value at 0.030. This result showed that the sharia compliance was significant for the correlation between the wadiah contract and the performance of sharia banks. Therefore, it can be concluded that any increase or decrease in the amount of the deposited funds based on wadiah contract, which is mediated by the sharia compliance, has a significant impact on the performance of sharia banks. In other words, the higher the level of sharia compliance, the stronger its effect on mediating the correlation between the wadiah contract and the performance of sharia banks. Al-Zuhaili (2003) mentioned that there has to be avoidance of the excessive profit taken by sharia banks. Instead, sharia banks should perform high integrity, transparency, ease of access and avoid the use of pledges. Sharia banks are also expected to often pay charities and always make record of any testimonies of any debts.

Table 4. Findings and research originality

No.	Variable	Performance of Sharia banking based on CAMELS	Maqashid Sharia	Performance of Sharia banking with the Maqashid Sharia index approach
1	Uqud al-Bai' (sale and purchase)	<ul style="list-style-type: none"> The value of goods or services is determined at will Not yet consistent to the fiqh muamalat, since there is no equivalence value yet 	<ul style="list-style-type: none"> Consistent to the fiqh muamalat 	<ul style="list-style-type: none"> Maqashid sharia becomes an important factor and plays a double role in bringing benefits to people
2	Uqud Wadiah	<ul style="list-style-type: none"> The absence of income sharing system from bank to customer. Bank is eligible to get an income from the wadiah utilization to conduct commercial activities and is not a profit element that should be shared The trustee (banking) accepts profit 	<ul style="list-style-type: none"> The party who accepts wadiah yadamanah is not allowed to use the deposited goods/money and is not responsible for any damage or loss on the deposited goods/money, which are not caused by wrong actions or negligence of the debtor The pure wadiah yadamanah is without having a recovery guarantee 	<ul style="list-style-type: none"> Maqashid sharia is also able to give philosophical and rational dimension to the financial system of the sharia banking
3	Sharia Compliance	<ul style="list-style-type: none"> Still lacks careful supervision and regulatory framework in the financial system, accountancy, and operational activity 	<ul style="list-style-type: none"> Keeping the Islamic values in terms of business and global financial competition 	<ul style="list-style-type: none"> Maqashid sharia provides rational and substantial thinking patterns to see the uqud and the sharia banking product
4	Sharia banking performance	<ul style="list-style-type: none"> It tends to the profit motive and material rentability 	<ul style="list-style-type: none"> Anything that brings benefits to people will have Shari'at Allāh (God's Law) 	<ul style="list-style-type: none"> Through the maqashid sharia approach, sharia banking and finance products can thrive and respond to rapidly changing business progress

According to the fifth hypothesis test, there is a direct effect of sharia compliance (Y1) toward the performance of sharia banks (Y2), which results in correlation coefficient value of 0.778 and p-value of 0.000. Given the values obtained, it can be stated that there is a significant impact of the sharia compliance on the performance of sharia banks. This also indicated that the sharia compliance had a significant impact on the performance of sharia banks, and the fifth hypothesis can be accepted, or it has been supported by empirical facts. Therefore, the higher the sharia compliance, the stronger its direct impact on the performance of sharia banks. Ilhami (2009) explained that monitoring on the sharia compliance is necessary to make sure that the principles of sharia as the fundamental regulations of sharia banks have been accurately and holistically implemented.

4. DISCUSSION

Based on the findings and discussion, several conclusions can be made. Firstly, financial activity based on Al-Bai' contract should be intended to gain blessings of Allah SWT the almighty God in

supporting and giving guarantee for the people that the financial products offered by sharia banks are constructed upon the regulation of sharia.

Secondly, deposited fund from the wadiah contract should not be seen as something profitable, but it should be seen as the key to achieve prosperity in this world as well as in after life.

Thirdly, any financial products, which are based on Al-Bai' contract offered by sharia banks for the society should fulfill all the conditions of the legality of Islamic transactions, since developing good relationships among the humans and their relation to the public prosperity have some effects toward the banks' revenue, consumers' prosperity and financial stability as the determining factor to improve the performance of sharia banks using the Maqashid sharia index approach.

Fourthly, the implementation of integrated rating concept to the sharia aspects and the finance aspect is the determining factor for the improvement of the sharia bank performance using the maqashid sharia approach.

Finally, the application of sharia compliance in any sharia bank should obey sharia principles in creating prosperity for all of the society, preventing crimes from happening and sticking to the real objectives of sharia system, which are also the key factors in improving the performance of sharia banks using the maqashid sharia index approach.

The study suggests that the sharia banking system in Indonesia should always consider the aspect of

motive in giving out their financial programs to determine the amount of the mark up (of the selling price) in the Al-Bai' contract that should be in line with the sharia principles. Hence, clients will later receive the return as they expected before.

Moreover, deposited money from clients' sharia savings and sharia clearing accounts should be managed in such a way that it follows sharia regulations and principles that will also improve the performance of sharia banks.

CONCLUSION

The amount of financing distribution based on the Al-Bai' agreement cannot significantly contribute to improved performance of Islamic banking with the Maqashid Sharia Index approach. The value of deposit funds based on the wadiah agreement cannot provide maximum contribution to improving the performance of Islamic banking using the Maqashid sharia index approach. Financial products based on the Al-Bai' contracts provided to the public must be in line with the legality of Islamic transactions, because creating a relationship between human behavior and its influence on public welfare has an impact on bank income, consumer welfare, and financial stability as determinants that can improve the performance of Islamic banking with the Maqashid sharia index approach. Financial transactions carried out by Islamic banks are in line with moral values and Islamic sharia principles. Sharia compliance in sharia banking, which complies with and adheres to sharia principles in creating the welfare of the community, avoids crime and clarifies sharia objectives, is a determining factor in improving the performance of Islamic banking with the maqashid sharia index approach.

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