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# Syirkah Model For Islamic Gold Monetization

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**Abstract:** This study proposes a syirkah model for gold monetization as a product innovation opportunity alternative in Islamic Financial Institutions (IFI) towards bullion bank activity implementation because of Act of Law No. 4 of 2023 about P2SK. A descriptive qualitative approach was used in this study of 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 contract. This study was also validated by semi-structured interviews. To clearly define the originality, we use simulation to present and compare the concept with an existing gold-based pawn contract (Ar-Rahnu). Risk-adjusted calculation to protect the initial value. The result shows that this syirkah model can be an alternative to productive gold investment.

**Keyword:** Musharakah, Rahn, Asset Refinancing, Gold.

## INTRODUCTION

Gold investment continues to be widely recognized as a secure haven for safeguarding wealth against the risks of inflation (Claude, Campbell & Tadas, 2020). Additionally, it serves as a hedge against currency risk (Gomis-Porqueras, Shi & Tan, 2021), making it an appealing choice not only for retail consumers but also for major investment companies and central banks (Baur & Lucey, 2010; Baur & McDermott, 2010; Singh & Joshi, 2019), as highlighted by the World Gold Council (2015). Despite the consistent upward trajectory of gold prices over time, some perceive gold investment as unexciting due to its lack of attractive yields, particularly in periods of low or negative interest rates (Jermann, 2023).

The majority of physical gold investments are typically stored in bank vaults or safes, according to Singh et al. (2017). The prevailing perception of gold as a non-yielding investment remains constant when compared to stocks, which offer stable income and dividends. To alter this perception, a more innovative service scheme is necessary. The Gold Monetization Scheme (GMS), initiated by the Reserve Bank of India in 2015, provides several advantages over other alternatives (VR & Jatty, 2019) like the Gold Deposit Scheme, Sovereign Gold Bond, and Gold ETF. Similarly, Turkey has implemented programs for innovative gold products (Bullion Bulletin, 2015), primarily focusing on lending finance schemes (World Gold Council, 2015a).

The Indonesian House of Representatives has recently approved Act of Law No. 4 of 2023, also known as the Financial Sector Omnibus Law, which aims to enhance the financial sector, particularly regarding Islamic Financial Institutions (IFI) engaging in gold bullion business activities and innovative gold monetization schemes. Gold has traditionally been utilized as collateral in Islamic banking through monetization as cash collateral, as indicated by common practices in Islamic finance related to bullion services (Siaran Pers Kemenkeu RI, 2023; Murjawi, 2013). Furthermore, an Islamic pawn-broking scheme known as Ar-Rahnu, based on the fatwa Dewan Syariah Nasional (DSN) No 26/DSN-MUI/III/2002 regarding Rahn Emas, has been implemented. These practices and guidelines play a crucial role in regulating the use of gold within Islamic finance

The contracts were specifically crafted for debt-based systems, a concept that contradicts the principles of the Islamic Economy due to the potential burden it places on Muslims and the risk of causing disgrace in certain scenarios. Islamic economic transactions should serve as a means to liberate contemporary individuals from an economy dominated by debt and guide them toward a society that is just and equitable (Nabi, 2018). Furthermore, there is uncertainty surrounding Fatwa DSN MUI 92/DSN-MUI/IV/2014 concerning financing combined with Rahn, leading to ongoing debates regarding the storage cost issue, which should ideally reflect the actual cost and not be considered hillah ribawiyah (Naim, 2014; Lubis, 2017; Hayati, 2020)

Islamic finance emphasizes the importance of profit and loss sharing rather than debt-based schemes, as it eliminates speculative motives (Chapra, 2003). Various research studies have highlighted the significance of equity participation or musharakah financing in Islamic finance (Aggarwal and Yousef, 2000; Asutay, 2007, 2012; Chong and Liu, 2009; El-Gamal, 2006; Farooq and Zaheer, 2015; Khan, 2010; Nagaoka, 2007; Sairally, 2002). However, Islamic banks tend to favor other instruments such as margin markup (murabahah) or leasing contracts (Ijarah) instead of utilizing this type of financing (Meslier, Rifandy, & Tarazi, 2020). Therefore, it is crucial to develop an innovative gold monetization scheme that allows gold to generate productivity without relying on debt and still adhering to Sharia principles. By eliminating riba and implementing a zakah levy on gold, an improved gold monetization scheme can be established, making gold investment more attractive

The emphasis in most research on the evolution of innovative products and services in Islamic finance has been on theory rather than process modeling (Al-Amine, 2015; Arbouna, 2007). The development of Islamic financial products typically involves adapting traditional methods and converting them into Sharia-compliant contracts. Islamic finance is portrayed as a fresh alternative to traditional financing, with a primary aim of enhancing Sharia-compliant practices for similar commodities (Dinc, 2020). Considerable effort is required to establish the fundamental basis in Islamic jurisprudence and the perspectives of scholars.

Our study has provided valuable contributions to the literature in several ways. Initially, we introduced an innovative approach that adheres to Shariah guidelines in Islamic finance by proposing a conceptual model for Musharakah gold-based refinancing. This model utilizes a joint ownership structure for gold within the syirkah contract. Furthermore, we outlined 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 argue that conventional gold collateral and pawn scheme approaches are less effective and appealing. Finally, our research showcases the development of a simulation for the gold equity refinancing system in comparison to the Islamic pawn scheme.

## METHOD

The study employed a qualitative approach by conducting an in-depth examination of GMS practices, and Islamic Jurisprudence, and was validated through a semi-structured interview method (Saunders, Lewis, & Thornhill, 2015; Yin, 2018). Additionally, contemporary regulatory materials from BI, OJK, and fiqh literature derived from Sharia Standard AAOIFI No. 57 on gold trading and its regulation, as well as DSN MUI on Musharakah and its refinancing contract were consulted. Purposive sampling, a technique frequently used in qualitative research (Saunders, Lewis, & Thornhill, 2015), was employed to select key informants based on their familiarity with NPD exercises in Islamic banks.

Informants were carefully selected for this conceptual study based on their expertise, interest, and experience in Islamic banking and finance, the gold industry, NPD process, and Shariah compliance. Through this investigation, suitable candidates were identified. Furthermore, earlier empirical studies in the NPD literature (Cooper and de Brentani, 1991; Bowers, 1986, 1987, 1989; de Brentani, 1989, 1993) were taken into consideration. The interviewees comprised professionals in the gold industry and Shariah-compliant officers from Bank Jago Syariah and Bank Syariah Indonesia. Our primary aim is to construct a conceptual framework by comparing hybrid gold Musharakah refinancing with the implementation of Ar-Rahnu or Islamic Pawn to impact economic productivity.

## RESULTS AND DISCUSSION

### Results

#### *India Gold Monetization*

The Reserve Bank of India (2015) defines gold monetization as the process of converting gold into cash and earning interest on it. The Gold Savings Account GMS scheme, which amends the existing Gold Deposit Scheme (GDS) and Gold Metal Loan Scheme (GML), allows gold depositors to earn interest on their gold savings. The scheme aims to mobilize gold held by households and institutions in the country, facilitate its productive utilization, and reduce the nation's reliance on gold imports. According to the Ministry of Finance, government of India (2015), depositors can benefit from both the interest generated on their gold deposits and the appreciation in the price of gold. At maturity, depositors can choose to receive their gold deposit along with interest in the form of cash or gold bars with a purity of 995, based on their preference. The scheme offers three deposit options: short-term (1-3 years), medium-term (5-7 years), and long-term (12-25 years).

#### *Turkey Gold Monetization*

Turkey has achieved a level of success comparable to India, primarily due to the established framework and infrastructure (Singh et al, 2017). The banking regulators in Turkey authorized banks to engage in the buying and selling of gold jewelry and coins. This decision resulted in a flourishing gold market, with banks vying for market share through the introduction of innovative loan products such as interest-bearing fixed-term gold savings accounts, gold accumulation programs, and gold-structured products (Bullion Bulletin, 2015). Substantial quantities of gold that were previously held "under the pillow" were mobilized and sold as a result of these ongoing efforts. Furthermore, the mobilized gold was utilized in participation schemes like gold-for-gold, which serve as loan finance schemes within the real economy (World Gold Council, 2015a)

#### *Islamic Jurisprudence of Gold Exchange*

Under exchanging law, gold is deemed a ribawi commodity, thereby making it susceptible to usury in transactions involving purchase and sale. The Prophet (peace be upon him) determined that ribawi commodities consist of assets that are subject to usury. This determination was established based on a hadith narrated by Ubadah bin Shamit (may Allah be pleased with him) : *"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*).*

Following the Gold Trading Standards and Controls No. 57 of 2016 established by AAOIFI, it is mandatory that in gold transactions involving gold, silver, or other currencies, both parties must transfer the respective counter values promptly, either physically (Qobdh haqiqi) or constructively (Qobdh hukmi). Sellers of gold who engage in transactions with qobdh hukmi are obligated to furnish a certificate at T+0 detailing the gold's specifications such as proportion, weight, caratage, serial number, or other identifying features to confirm its assignment and prevent further trading with third parties. Conversely, buyers, upon receiving the certificate, retain full rights to access and claim their purchased gold at any given time. Besides trading, gold can also be utilized in various contracts like sales and purchase agreements (bai), ijarah, and cooperative arrangements such as musharakah, mudharabah, and Wakalah bil Istitsmar (investment). Furthermore, gold can be co-owned (joint ownership/syirkatul milkiyyah) with a clear record of its usage. If the gold is specific (allocated), it must be distinguishable by a serial number or other physical marking to differentiate it from other gold bullion (AAOIFI, 2016).

However, in Indonesia, the DSN-MUI, serving as the fatwa authority by Indonesian law, undertook a Tahqiq Al Manath study concerning gold as a ribawi commodity. Following 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. Based on the aforementioned considerations and in light of the principles of ushul al-fiqh and fiqh, it is determined that the legal terms and conditions governing the exchange of gold and silver, as prescribed in the hadith of the Prophet and by the DSN MUI, are no longer relevant to the contemporary practice of exchanging gold for money. Consequently, the MUI has issued fatwa no. to formalize this interpretation. As per the guidelines outlined in DSN-MUI/V/2010, non-cash transactions involving the buying and selling of gold, including murabahah trading and regular purchases, are considered permissible (mubah/jaiz), provided that the gold is not utilized as an official form of currency.

The linguistic interpretation of musharakah or Syirkah sheds light on the concept of al-ikhtilath, which can be understood as "blending" or "combining." Scholars of fiqh define syirkah as the pooling of assets to serve as business capital, followed by the subsequent division of profits or losses (Syabiq, 2000). In essence, syirkah represents a business partnership where two or more individuals come together to share both profits and losses (Ghazaly, Ihsan, & Shidiq, 2010). In simpler terms, it can be likened to a legal case initiated by two parties who choose to jointly operate a company through profit-sharing arrangements. This Combination is a sort of cooperation between two or more parties, musharakah is comparable to musharakah mutanaqishoh contract.

This particular form of hybrid musharakah is designed to foster cooperation among multiple individuals with regard to property ownership. Through collaborative efforts, one party's ownership rights are diminished without impinging upon the rights of the other parties involved. Various payment methods are utilized to facilitate the transfer of ownership rights to other parties. Once a party transfers their rights to another, this collaborative endeavor comes to a conclusion (Az-Zuhaili, 2011). The Musharakah Mutanaqisah is considered as syirkah 'ain, as both parties contribute capital (ra'sul maal), and the consumer entrusts business transactions and profit-seeking to the Islamic Financial Institution (IFI). Throughout the duration of the syirkah contract, the IFI sells its portion, either wholly or partially, to the consumer. The consumer has the option to gradually purchase the portion based on PT Antam Selling Price, or they may choose to wait until the contract period expires. As Az-Zuhaili (2011) explains, "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*) (Zain et.al, 2014; Sadique, 2009; 2012), 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 feasible for multiple individuals to collectively own gold if each partner holds an undivided share of a specific proportion in the gold pool. If possible, the owner of the undivided share can request the separation of his share without affecting the other partners. He has the freedom to sell his entire stake without any restrictions. In case of loss or damage, each co-owner is accountable for the losses/damage proportionately. Ingots that are stored in a warehouse and lack distinguishing serial numbers are categorized as unallocated and are therefore subject to the Shariah regulations for joint ownership (AAOIFI, 2018). However, if the ingots possess unique serial numbers, each owner will possess his allocated ingots and will be responsible for their loss, unless a mutual agreement is reached that the ownership of the stored ingots will be joint and undivided, in which case the regulations of joint ownership will be applicable. If there is a loss or damage to the jointly owned ingots, each owner will bear the loss proportionately, provided that the total amount in storage is always specified.

To adhere to the Sharia standard, the transaction will be guided by fatwa. The DSN MUI, a prominent fatwa issuer, has issued Fatwa DSN Number 73/DSN-MUI/XI/2008 regarding the MMq Contract, and Fatwa DSN Number 89/DSN-MUI/XII/2013 on Sharia Refinancing potentially utilizing the MMq contract. This transaction model is rooted in Sharia principles derived from the Quran, hadith, and the opinions of Islamic scholars, such as :

*وإن اشْتَرَى أَحَدُ الشَّرِيكَيْنِ حِصَّةَ شَرِيكِه منه، جازَ؛ لأنَّه يَشْتَرِى مِلْكَ غيرِه*

*«المغني» لابن قدامة (7/ 167 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 حِصَّتَهُ لِأَجْنَبِيٍّ لَا يَجُوزُ وَلِشَرِيكِهِ جَازَ*

:(4/ 300) حاشية ابن عابدين = رد المحتار ط الحلب

*"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 -كالإجارة 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 عميله الشريك بإدارة المشروع. وبعد انتهاء الشركة يبيع المصرف حصته للشريك كليا أو جزئيا, باعتبار هذا العقد عقدا مستقلا, 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 the Syirkah 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 (Azis & 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 despite being more Shariah-compliant (Maikabara, 2019).

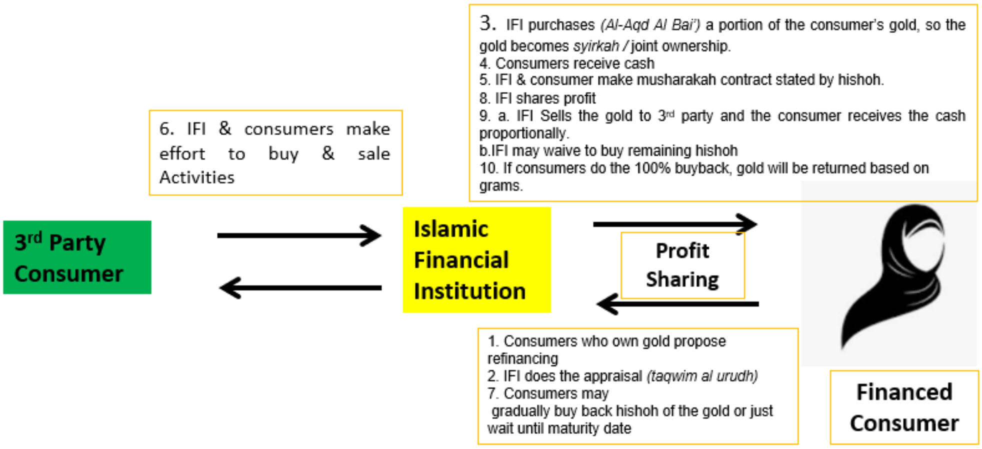



**Figure 1. Syirkah Model for Gold Monetization Scheme**

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 cooperation or *syirkah*, finance to value a maximum of 80%, 4 months maturity due date, 2). IFI does the appraisal *(taqwim al urudh)* of the gold to determine a fair price, 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 consumers 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 the consumer receives the cash proportionally; b. IFI also may waive to buy the remaining *hishoh* from the consumer with a buyback price (e.g. based on PT ANTAM Price) and becomes full owner of the gold or sell the gold to 3rd party and then the consumer receives the cash from the sale based on the 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.***

Below is the comparison between the pawn and syirkah model :

**Table 1 Comparison of Pawn and Syirkah Models**

| 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 financer. |
| 2. 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 transfer in rahn. |
| 3. 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. |
| 4. 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. |
| 5. Risk and Loss | Risks and losses in Joint ownership are shared fairly between the parties involved in the agreement. This encourages shared responsibility.<br>In the event of loss or damage of the jointly owned ingots, provided that the overall amount in storage is specified at all times and insured. | 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.<br>In the event of loss or damage of the collateralized gold ingots, get insured. |
| 6. 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 3rd parties upon the owners' agreement to cover the loan plus fee. |
| 7. Cost and Fee | There is no storage cost, due to musharakah, each owner shall bear the profit sharing as per agreement and loss sharing pro rata.<br>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. |

Source: Interview with informant

Table 1 illustrates that the syirkah gold-based financing option is particularly attractive to gold owners due to four key reasons. Firstly, the owner stands to benefit from potential gains and cash flow generated by the gold's productivity. Secondly, there is no obligation for monthly payments, whether for storage costs or installments. Thirdly, if the original gold owner is unable to repurchase their share of ownership from the co-owner by the due date, they have the option to sell the remaining stake of ownership in the gold. Lastly, there is no need for credit scoring in this arrangement. Our source further elaborated that the musharakah contract is a syirkatul uqud, characterized by a muawadhah contract designed to generate profits. Following the evaluation and sale of the hishoh/portion of the gold 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 agreement guarantees that the gold is considered a shared asset between partners, with ownership determined by a specific percentage. Both partners are required to actively work together to maximize the profitability of this asset. Therefore, when the partners decide to buy or sell their respective shares, it should not be treated as a mere transaction, but rather as a mutual agreement.

***How It Works***

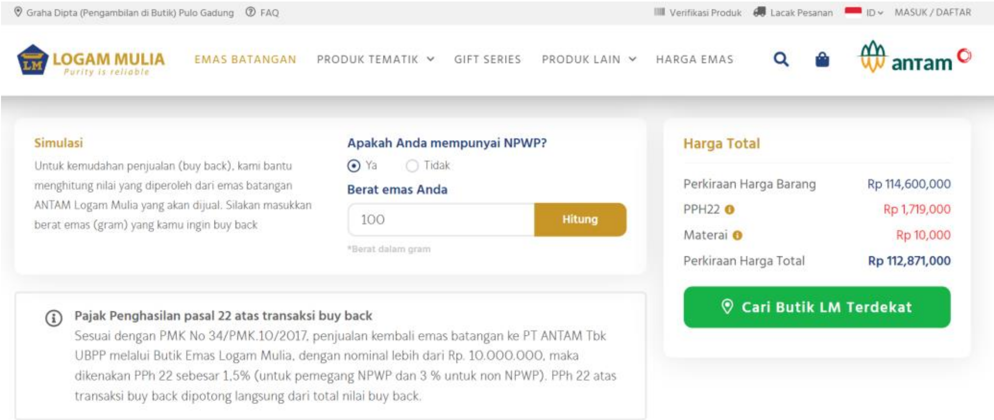
The valuation of financial assets based on the gold scheme, by Surat Edaran Otoritas Jasa Keuangan Nomor 14/7/DPBs/2012, involves a comparison between the loan amount extended to the customer and the value of the gold being used as collateral. This comparison is capped at 80% of the average selling price of 100 grams of gold and the gold buyback price determined by PT. ANTAM (Persero)Tbk. IFIs are permitted to determine the Financial Transaction Value (FTV) using alternative benchmarks if the resulting FTV is less than or equal to the stipulated FTV value. The FTV limits are outlined in 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 ≤ 80% | (Average of Selling & Buyback Price of PT Antam) |

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

Furthermore, it has been elucidated that an alternative measurement can be employed for the valuation, provided that it yields a lower Financial Time Value (FTV) or maintains the same maximum value as mentioned earlier. To safeguard against unpredictable fluctuations in the price of gold, a risk-adjusted valuation of 6-10% is utilized, taking into account various assumptions. Naturally, these figures are subject to alteration under the volatility exhibited by the gold market. This percentage serves as a safeguard to counterbalance any potential decrease in value and safeguard the initial investment. The aforementioned FTV approach serves as an alternate means of ascertaining the value. Additionally, our esteemed gold expert, drawing upon their extensive experience, have substantiated the validity of this FTV method by stating :*"…When* I *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%".*




Source: https://logammulia.com/, PT Antam Website, April 01nd, 2024.

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

Figure 2 illustrates the current potential returns and expenses associated with owning gold. To conduct a simulation, let us consider a specific example. On November 2nd, 2023, with a gold quantity of 100 grams, the buyback value for complete ownership amounts to IDR 99,967,000. However, it is important to note that by SEOJK No. 14/7/DPBs/2012, the Institute for Financial Inclusion (IFI) is permitted to purchase only 80% of the gold.

**Table 3. Cash Receipt by The Consumer**

| Category FTV | Risk weight Adjusted | Cash Receipt by Consumer |
|---|---|---|
| FTV ≤ 50% | 6 % | 50,791,950 (112,871,000 x (50-6) %) |
| 51 ≤ FTV ≤ 70 % | 8 % | 58,692,920 (112,871,000 x (60-8) %) |
| 71 ≤ FTV ≤ 80 % | 10 % | 79,009,700 (112,871,000 x (80 -10) %) |

Source: Author’s calculations, based on 100 grams = Rp. 112.871.000

The simulation from Table 3 involves three points of FTV at 50%, 60%, and 80%. If a consumer decides to sell their 50% portion, the percentage will be adjusted by 6% to 44%. This implies that they are willing to sell 50% of their gold portion to IFI for 43,985,480. Consequently, the new ownership percentage will be split equally between IFI and the consumers, each holding 50%. In the scenario where a consumer opts to sell their 60% portion, the percentage will be adjusted by 8% to 52%. This decision entails selling 52% of their gold portion to IFI for 51,982,840. As a result, the new ownership percentage will shift to 60% for IFI and 40% for the consumers. If a consumer chooses to sell their 80% portion, the percentage will be adjusted by 10% to 70%. This means that they are willing to sell 80% of their gold portion to IFI for 69,976,900. Consequently, the new ownership percentage will be 80% for IFI and 20% for the consumers.

From a financial standpoint, the consumer may not receive as much value as they would from a pawn service. Our interviewee, a gold expert, suggests that there is a more favorable trade-off available. *‘….Consumers always look for higher cash, despite the higher interest they will be charged”*

Nonetheless, we maintain the belief that this hybrid contract, devoid of any fees, does not necessitate the imposition of monthly payment installments. Furthermore, it presents an opportunity for potential profit returns through buy and sale activities. Consequently, it serves as a means of compensating the offering, enabling consumers to make a choice that offers superior value and alleviates the burden of debt.

Upon conclusion of the interview with our additional expert, it is evident 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 passed away***

In this particular scenario, the individual who possessed the gold unfortunately passed away before the specified deadline. It is important to note that IFI does not impose a compulsory sale when an owner dies, as the demise of an owner does not serve as a catalyst for repayment. Instead, the estate or co-owner is simply required to adhere to the conditions outlined in the IFI Gold contract, which is legally enforced by the Deed of Trust that the party records on the gold contract. If the spouse of the owner is not listed as a title holder of the gold, we will ensure that the spouse acknowledges and consents to the Agreement by signing an acknowledgment document.

## CONCLUSION

This conceptual framework has effectively demonstrated its differentiation from all other frameworks available in the market. Furthermore, it has successfully addressed the challenge posed by bullion bank activity in light of Act of Law No. 4 of 2023, which emphasizes Shariah compliance. It is important to highlight that the proposed models encompass the Shariah perspective, underscoring their adherence to Islamic principles. The innovative ideas in gold product creation, frequently discussed in the literature, and the ingenuity of Islamic financial institutions (IFIs) are typically confined to the conversion of traditional contracts into hybrid musharakah gold monetization. This departure from a lack of originality issue is due to the incorporation of elements from the debt-based traditional model while ensuring compliance with Shariah principles. As a result, this model will put an end to the ongoing debate surrounding gold pawn services or the Ar-Rahn model. IFIs now have a new solution that offers attractive value, providing consumers with an alternative Shariah-compliant model that offers greater benefits in terms of gold returns.

The successful implementation of this model necessitates thorough deliberation among the stakeholders, encompassing regulatory frameworks, procedural guidelines, risk mitigation strategies, and effective marketing approaches. Enhancing customer experience through the introduction of new Shariah-compliant products is imperative for IFIs to maintain a competitive advantage in non-Islamic financial markets. IFIs have emerged as key players in the financial sector, encountering numerous obstacles in the past years. The innovation brought about by gold monetization has stimulated product development research, paving the way for potential advancements in the IFI product model.

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