



# PRINCIPLES OF ISLAMIC ECONOMIC TRANSACTION AGREEMENTS IN REDUCING MORAL HAZARD

Fauziah<sup>1</sup>, Sirajuddin<sup>2</sup>, Sabbar Dahham Sabbar<sup>3</sup>, Muhammad Adam HR.<sup>4</sup>, & Sappeami<sup>5</sup>

<sup>1,4,5</sup>Institut Agama Islam (IAI) DDI Polewali Mandar

<sup>2,3</sup>Universitas Islam Negeri Alauddin Makassar

Correspondence Email: [fauziahsulaiman1987@gmail.com](mailto:fauziahsulaiman1987@gmail.com)

## ABSTRACT

This paper aims to analyze the principles of Islamic economic transactions that can reduce moral hazard that occurs in economic transaction activities. One of the things that trigger moral hazard is the asymmetry of information or unbalanced information in these business activities. This happens because of several factors, namely pressure, opportunity, rationale and capability, then these factors will be reduced by preventive efforts, namely by internalizing the principles of Islamic economic transactions. The research method used is a qualitative descriptive research design that aims to obtain a complete description of the principles of Islamic economic transaction agreements in reducing moral hazard using the religiosity paradigm approach and this critical paradigm results in the finding that the principles of Islamic economic transaction agreements have principles including the principle of tawhid, the principle of justice, the principle of equality, the principle of honesty and so on so that it can minimize the occurrence of moral hazard in economic activity.

**Keywords:** Principles; contract; moral hazard

## 1. INTRODUCTION

The agreement is an important point in an economic transaction without causing losses to the parties. The agreement is necessary for carrying out various kinds of transactions and economic activities to mitigate the occurrence of various modes of deviation in *muamalah*. To reach an agreement in an agreement, a contract is needed that binds the parties, which is referred to as a contract in Islamic law.

Islamic economics in the rules or provisions that Allah Almighty has mandated becomes an obligation that a Muslim must obey because it has spiritual consequences. Neglecting Allah's

commandments certainly brings misfortune to man himself, this has described in Q.S. Al-Baqarah/2:195

وَأَنْفِقُوا فِي سَبِيلِ اللَّهِ وَلَا تُلْقُوا بِأَيْدِيكُمْ إِلَى التَّهْلُكَةِ وَأَحْسِنُوا إِنَّ اللَّهَ يُحِبُّ الْمُحْسِنِينَ

Translation:

*"And spend in the way of Allah, and do not bring yourselves into destruction, and do good, for Allah loves those who do good."*

Islamic economics in its concept has established all economic institutions based on the teachings of the Islamic religion because in Islamic economics it contains values, principles, theories, and rules that must be implemented in various forms of business. The actualization of Islamic economic values is an influential agenda to solve the moral hazard crisis that afflicts capitalist, liberalist, neo-liberal, and conventional economies that are profit-oriented only (Zuhdi, 2017).

Moral hazard, known in insurance, has been propagated in every economic activity with various perspectives. Moral hazard in the perspective of the banking world refers to the behavior of interested parties (stakeholders) that give birth to various problems (Taswan Ibrahim dan Ragimun, 2001). The problem of moral hazard that occurs in financial institutions (both conventional and sharia), occurs due to circumstances or conditions where there is imperfect asymmetric information, namely when one party has more information than the other party, because this other party cannot access the information (Yusuf, 2015).

Moral hazard as a contemporary study, is in great demand by researchers concerned in the field of economics. Hal can be seen from several previous studies: such as Nur Sayidah which explains how to minimize the occurrence of moral hazard. Research entitled Moral and Spritual Solutions to Moral Hazard Problems, the results of this study show that in overcoming moral hazard problems there are several solutions: First, it is viewed from the perspective of pure agency theory that recommends that the illusion be designed to control moral hazard, recruit managers and provide salaries that can maximize their utility, carry out direct or indirect supervision, the owner hires the company for the manager, gives the manager a part of the company's results, controls the conflict between the manager and the holder shares, compensation management contracts and conflict resolution. Second, apply moral and spiritual values. In this case, the manager/employee

must be given the realization that the purpose of working is not only to seek materiality but to exceed it, which is to seek happiness by doing good to others and worshipping God (Sayidah, 2012).

Firman Wahyudi's research entitled controlling customer moral hazard through ta'zir and ta'widh instruments. The results of the study revealed that moral hazard can be controlled through ta'zir and ta'widh instruments which aim to provide benefits for transacting parties both in terms of customer discipline and providing legal certainty for the development of the financial cycle and the performance of Islamic banking (Wahyudi, 2017).

Similarly, M. Soleh Mauludin's research entitled Risk Management Analysis to Reduce Moral Hazard of Murabahah BRI Syariah Pare Financing Customers. This research analyzes the extent to which risk management is carried out by Islamic Banks in minimizing the problem due to moral hazard carried out by murabah financing customers, according to him, the efforts made in minimizing moral hazard in murabahah financing are 2 by using the 5C analysis process, namely character, capacity, capital, collateral (guarantee), and condition and by means of conducting surveys, supervision before disbursement, direct supervision, indirect supervision, and revitalization actions (Mauludin, 2020).

Contracts or contracts are important things that must be considered in Islamic economic activities/transactions. The contract determines the pattern of relationships between actors and economic users in a transaction relationship. The pattern of relations between the parties involved and Islamic Financial Institutions (LKS) is determined by the nature of the contract, which then becomes the basis that underlies all the parties' transactions. This contract is what distinguishes between Conventional Financial Institutions (LKK) and LKS.

This research will analyze the principles of transaction agreements in Islamic economics, moral hazard in a transaction, and Islamic economic principles in reducing moral hazard. Because moral hazard carried out in a transaction will have a detrimental impact on other parties, as well as cost overruns that are not in accordance with the budget, which further creates conflicts of interest and triggers acts of corruption. So this research is very important to do, considering that the principles of transaction agreements in the Islamic economy are believed to be able to mitigate the occurrence of moral hazard.

## 2) METHODS

This design uses descriptive qualitative with a *library research approach*. Literature studies are conducted for data collection that examines each reference related to the basic principles of transactions in Islamic economics, and more specifically examines the principles of Islamic economic transaction agreements that can reduce moral *hazard*.

## 3) RESULTS AND DISCUSSION

### Principles of Islamic Economic Transaction Agreement

Economic activity or muamalah must pay attention theoretically to the basic principles in the Qur'an and Hadith, especially in carrying out the contract as a practical domain. The principles of Islamic economic transactions include:

#### 1. Principles of Tauhid

The first principle in regulating all human activities is the principle of tawhid, as a form of unity that surrounds this principle such as the unity of nature, religion, science, truth and so on; and leads to the essence of Tawhid. (Muhammad Quraish Shihab, 2013). Allah SWT says in QS al-Hadid/57:4

هُوَ الَّذِي خَلَقَ السَّمَوَاتِ وَالْأَرْضَ فِي سِتَّةِ أَيَّامٍ ثُمَّ اسْتَوَىٰ عَلَى الْعَرْشِ ۗ يَعْلَمُ مَا يَلِجُ فِي الْأَرْضِ وَمَا يَخْرُجُ مِنْهَا وَمَا يَنْزِلُ مِنَ السَّمَاءِ وَمَا يَعْرُجُ فِيهَا ۗ وَهُوَ مَعَكُمْ أَيْنَ مَا كُنْتُمْ ۗ وَاللَّهُ بِمَا تَعْمَلُونَ بَصِيرٌ

Translation:

*"He created the heavens and the earth in six days: Then He sat on the 'Arasy. He knows what goes into the earth and what comes out of it and what descends from the heavens and what ascends to Him. And He's with you wherever you are. And Allah is All-Seeing what you do.."*

Based on the paragraph above, it is explained that the principle of tawhid as the main basis in human activities, especially economic activities or muamalah, especially in every form of transaction whose contract is inseparable from the values of godliness. The principle of tawhid also teaches responsibility to Allah SWT in addition to responsibility to his person, so it is hoped that with this principle a person does not do anything that can harm others because every action will get a reply

from Allah SWT.(Muhammad Akram Khan, 1995). In addition, in terms of trying and working, the verse is also a motivation that all forms of effort carried out by humans must depend on Allah Almighty. In accordance with the Word of Allah Almighty in Q.S al-Ikhlās/114:1-4.

قُلْ هُوَ اللَّهُ أَحَدٌ اللَّهُ الصَّمَدُ لَمْ يَلِدْ وَلَمْ يُولَدْ وَلَمْ يَكُنْ لَهُ كُفُوًا أَحَدٌ

Translation:

*Say, "He is Allah, the One, Allah is the Lord of all things, He has no children and has not been begotten, and there is no equal to Him."*

## 2. Principles of Justice

The principle of justice in Islam is an effort to realize the ideals of socioeconomic cadence, which basically Islam expressly prohibits the domination of assets of wealth to the extent of a person or a certain group of people. That way Islam offers the concepts of zakat, infaq, almsgiving, waqaf and other institut such as taxes, *jiḥyah*, *dharibah*, and so on. As in QS al-Hashr/59:7

لَا يَكُونُ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنْكُمْ.....

Translation:

*'... that the treasure may not circulate among the rich alone among you ...'*

## 3. Principle of Equality or Equality

Allah Almighty has created different human beings, both from gender, ethnicity, language, and social status, such as rich and poor. This diversity is *sunnatullah*. In the reality of life, there are people who have excess property and there are also those who have shortcomings. In the context of *mu'amalah*, the function of humans as social beings is required to interact with each other, help each other and complement each other, so as to create a harmonious order of life. Likewise, in entering into a contract, the parties determine their respective rights and obligations based on the principle of equality and equality (Khadduri, 2002). As stated by Allah SWT in QS. Al-Hujurat/49:13:

يَا أَيُّهَا النَّاسُ إِنَّا خَلَقْنَاكُمْ مِنْ ذَكَرٍ وَأُنْثَىٰ وَجَعَلْنَاكُمْ شُعُوبًا وَقَبَائِلَ لِتَعَارَفُوا إِنَّ أَكْرَمَكُمْ عِنْدَ اللَّهِ  
أَتْقَىٰكُمْ إِنَّ اللَّهَ عَلِيمٌ خَبِيرٌ

Translation:

*"O people, We created you from a man and a woman, and made you nations and tribes that you may know one another. Indeed, the noblest of you in the sight of Allah is the most God-fearing of you. Indeed, Allah is All-Knowing, All-Knowing."*

#### 4. Principles of Honesty and Truth

Honesty is the main foundation for the establishment of truth values because honesty is synonymous with truth. Thus, honesty and truth are the principles of contract in Islam as a valid condition for the legality of a contract. If this principle is not applied in the contract, it will damage the legality of a contract and may cause disputes between the parties. The command to uphold honesty is affirmed in Q.S al Ahzab/33:70:

يَا أَيُّهَا الَّذِينَ ءَامَنُوا اتَّقُوا اللَّهَ وَقُولُوا قَوْلًا سَدِيدًا

Translation:

*"O you who believe, fear Allah, and say the truth,"*

Honesty should not only be narrowly interpreted as "harmony between word and deed, congruence between word and fact." It must also mean truth and justice in action, and be wise in taking a stand. Furthermore, an agreement can be said to be true if it gets benefits for the parties to the agreement, for the community and the environment. Meanwhile, the agreement of *jian* which is *mudharat* is prohibited, because it will bring harm to other parties (Ardi, 2016; Yulianti, 2008).

## 5. Principles of Trust

Trust or *mandate* has the meaning of al-wafa (fulfilling / conveying) and *wadi'ah* (entrustment). Furthermore, the mandate is understood as something that is conveyed and entrusted to a trustworthy person, so that peace of mind arises without any worries at all. (Muhammad Rasyid ibn 'Ali Ridha, 1990). The substance of the mandate is the trust that others have in it so as to cause peace of mind, as in the word of Allah Almighty QS. Al-Baqarah/2:283.

....فَإِنْ أَمِنَ بَعْضُكُم بَعْضًا فَلْيُؤَدِّ الَّذِي أُؤْتِمِنَ أَمْنَتَهُ....

Translation:

“... if some of you trust some of the others, then let the one who is believed be fulfilling his mandate (his debt).... “

### Moral Hazard in Transactions

Moral hazard can be defined into four based on different conditions. **First**, moral hazard occurs due to the condition of monitoring disability (*hidden action*). Principals cannot observe or monitor agent behavior. The inability to monitor actions conceptually *indicates* uncertainty regarding the relationship between the actions of the agent and the results for principal, the inequality of information between the two parties, the need to make an agreement on the issue of incentives for agents, the inability to make contracts to eliminate problems (without the ability to monitor the behavior of agents, contracts made unenforceable). Principals and agents are assumed to have the potential for conflicts of interest. **Second**, moral hazard occurs because of *undesirable behavior production* viewed from the perspective of the principal. The Agent does not sufficiently guarantee that his actions will benefit the principal or reduce any losses that may occur. Moral hazard identified as a result of at-risk agent behavior. **Third**, moral hazard occurs because of *undesirable outcome (impact) production*. Moral hazard is a form of post-contractual opportunism that arises due to actions that have the consequence of efficiency that cannot be freely observed so that a person can fulfill his personal interests at the expense of others. **Fourth**, moral hazard as a form of *morals disability*. Moral hazard occurs due to the tendency to immoral behaviors such as dishonesty, indifference, ignorance or impatience. (Li & Wang, 2020; Mitnick, 2012). The description of moral hazard in the economy is a form of violation of ethics, regulations and contracts. The violation can be in the form of fraud or a

contract that is prepared and even rules or regulations that are rigged in order to meet personal interests so that it can cause harm to others (Mauludin, 2020).

Moral *hazard* arises because an individual or institution is not fully consequential and not responsible for his actions, and therefore tends to act less carefully to release responsibility for the consequences of his actions to others. Moral hazard occurs in some transactions, for example in transactions of Islamic philanthropic institutions such as zakat and waqf institutions which are triggered due to *asymmetric* information or information that is only known by one party. So that the other party does not know the information and may result in losses, and this is an act of fraud. Related to this there are several factors that can cause someone to commit fraud, including:

- a. *Pressure* factor (pressure ), pressure can come from family, economic background and so on such as the income obtained is so low that it cannot meet the needs of life (secondary and secondary needs);
- b. *Opportunity* factor, this opportunity comes from the opportunity that a person takes from the weakness of a transaction or lack of internal control and control;
- c. *Rationalization* Factor, is a factor with the condition that a person justifies a fraudulent act committed depending on the case that a person commits, such as someone who urgently needs money, who will replace it when receiving a salary;
- d. *Capability* Factor (ability), this factor supports the occurrence of fraudulent actions because this ability is related to a person's position and intelligence, where the higher a person's position, the higher his ability to see and take advantage of opportunities. In this context, intelligence is needed in order to see opportunities, while creativity is needed in order to take advantage of these opportunities. The combination of the two (intelligence and creativity) can cover up the deeds that have been done.

### **Principles of Islamic Economic Transaction Agreements in Reducing Moral Hazard**

Reducing moral hazard is always encouraged in Islam, this aims to avoid all the damage that occurs due to information asymmetry. Basically, moral hazard can be reduced by internalizing the principles of Islamic economic transactions. So that public trust in Islamic financial institutions such as zakat and waqf institutions can increase. The importance of public trust in zakat institutions can be seen from the demands of the community who want transparency and accountability from zakat institutions so that these institutions can distribute zakat with the right target.



Moral hazard is aligned with fraudulent acts supported by several factors and reduced to the principles of Islamic economic transactions, namely:

1. *Pressure* factor, this factor the author has explained above that moral hazard occurs due to some pressures, both from the family and other external pressures such as insufficient income. An amil zakat or zakat manager with less income can do moral hazard, but this can be reduced by including the principle of tawhid, which is to always present God in his muamalah activities. This sounds very simple, but the principles of honesty and truth will grow on their own as gratitude is always applied in life. Be grateful for what you already have, and don't impose your will on something you can't afford to have. By adhering to this principle of honesty and truth, the Amil zakat will distribute zakat funds to the people who are entitled to receive them equally in accordance with the contract that has been made. Likewise, the funds that have been received and managed will be reported with trust, transparency, accountability, and professionalism. Furthermore, this principle of trust is closely related to public trust, especially Islamic financial institutions, namely zakat institutions. The growth and development of mandated zakat institutions is believed to be able to support the nation's economy, especially in alleviating poverty.
2. Opportunity factor (opportunity), the occurrence of moral hazard comes from the opportunity taken by a person from the weakness of a transaction contract or lack of internal control and control, for example in the carelessness in distributing funds to customers is also included in the category as indirect moral hazard. The lack of vigilance from the management of financial institutions in providing funds causes moral hazard to customers indirectly, such as the distribution of profit-sharing financing which in its distribution is based on the nature of reciprocity, because acquaintances (brothers or friends) without optimizing the monitoring system, so this is utilized for the borrower. This can be reduced by incorporating the principle of tawhid. Religion teaches to always present God in transactions, so as not to take opportunities that can harm others. Such an act has actually saved him from moral hazard deeds, because it always presents God in his economic activity. This means that there is a control that always supervises its activities, although there is control internally from the institution that places the Sharia Supervisory Board (DPS) as the internal supervisor. Moral control or self-control as a religious human being is needed, in addition to the control of society. The principles of honesty and truth can be a tool for parties who enter into contracts with Islamic financial institutions. In addition to amil zakat, *muzakki* who entrust their zakat funds to zakat institutions must also have good faith in transactions. If both parties apply Islamic economic principles in transactions, of course treasonous acts that can arise due to opportunities can be minimized or reduced. So that zakat institutions can grow and develop as institutions that are transparent in managing zakat funds from the community.
3. Rationalization factor, this factor is a factor that justifies every action taken such as using zakat funds first, even though the funds will later be replaced, so that by including some principles of the transaction contract, it can reduce the justification actions taken. The principle of tawhid is of course a principle that must always exist because with the principle of tawhid can be a tool of control for a person in carrying out economic activities, the principle of honesty and truth and justice is used to behave correctly in acting and speaking as the contract they have agreed. The implementation of these values and principles must be applied in the zakat distribution system,

according to the group that is included in the *mustahik* category according to the proportion that has been determined by the zakat institution fairly and evenly.

4. *Capability* factor, is a factor of a person's ability obtained from a person's position and intelligence, where the higher a person's position, the higher his ability to see and take advantage of opportunities. Intelligence is needed to see opportunities, while creativity is needed to be able to take advantage of these opportunities, so that this combination can cover up the deeds that have been done. Moral hazard can occur because a person utilizes the abilities he has, namely intelligence and position, so that asymmetric information can occur where this person's position supports information that can only be obtained from his side and his intelligence in utilizing these opportunities. To reduce the act of opportunity in every economic activity, it must include the fundamental principles of Islamic economic transactions (the principle of tawhid, the principle of justice, the principle of equality or equality, the principle of honesty and truth and the principle of trust), so as not to easily take advantage of the position or position they have to obtain their interests. With this ability factor, it is hoped that it can be an effective control to protect each person from miral hazard acts.

This paper shows that problems related to moral hazard theory are very important to be reviewed in Islamic financial institutions and then reduced by the principles of Sharia transaction agreements. But for future research, it is advisable to discuss the implementation of the principles. Hal this can support and increase the accountability, transparency, trust and professionalism of financial institutions syariah.

## CONCLUSION

Economic transaction activities or muamalah must refer to the principle of tawhid, the principle of justice, the principle of equality, the principle of honesty and the principle of trust. Moral hazard is an act of economic actors that causes chaos both for oneself and others, which can be aligned with fraudulent actions, where fraudulent actions are supported by several factors including *pressure, opportunity, capability and rationalization factors*. Reducing moral hazard can be achieved in several ways, one of which is by incorporating the principles of sharia transaction agreements on factors that support the occurrence of moral hazard.

## REFERENCES

- Ardi, M. (2016). Asas-Asas Perjanjian (Akad), Hukum Kontrak Syariah dalam Penerapan Salam dan Istisna. *Jurnal Hukum Diktum*, 14(2).
- Khadduri, M. (2002). *The Islamic Conception of Justice*. JHUP.
- Li, R., & Wang, M. (2020). Moral Hazard, Agency Cost, and Firm Growth. *International Review of Finance*, 20(3). <https://doi.org/10.1111/irfi.12233>

- Mauludin, M. S. (2020). Analisa Manajemen Resiko Untuk Mengurangi Moral Hazard Nasabah Pembiayaan Murabahah BRI Syariah Pare. *El-Faqih: Jurnal Pemikiran Dan Hukum Islam*, 6(2), 75–79.
- Mitnick, B. M. (2012). The Hazards of Agency. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.1417412>
- Muhammad Akram Khan. (1995). *ECONOMIC MESSAGE OF THE QURAN*. Kuwait: Islamic Book Publishers.
- Muhammad Quraish Shihab. (2013). *Membumikan Al Quran, Fungsi dan Peran Wahyu dalam Kehidupan Masyarakat*. Bandung: Mizan.
- Muhammad Rasyid ibn ‘Ali Ridha. (1990). *Tafsir al-Manar*. Mesir: al-Haijah al-Mishriyyah al-‘Ammah li al-Kitab.
- Sayidah, N. (2012). Solusi moral dan spiritual atas masalah moral hazard. *Jurnal Ilmiah Akuntansi Dan Humanik*. Retrieved from <http://repository.unitomo.ac.id/id/eprint/3109>
- Taswan Ibrahim dan Ragimun. (2001). Moral Hazard Dan Pencegahannya Pada Industri Perbankan Di Indonesia. *Tokyo: ADB Institute, 2001, 59*.
- Wahyudi, F. (2017). Mengontrol Moral Hazard Nasabah Melalui Instrumen Ta’Zir Dan Ta’Widh. *Al-Banjari: Jurnal Ilmiah Ilmu-Ilmu Keislaman*, 16(2), 25. <https://doi.org/10.18592/al-banjari.v16i2.1357>
- Yulianti, R. T. (2008). Asas-Asas Perjanjian (Akad) dalam Hukum Kontrak Syariah. *La\_Riba*, 2(1). <https://doi.org/10.20885/lariba.vol2.iss1.art7>
- Yusuf, M. (2015). Yusuf, Muhammad, Moral Hazard dalam Transaksi Muamalah Kontemporer: Reinterpretasi Transaksi Perbankan Syariah di Indonesia. *Al-Ittibad: Jurnal Pemikiran Dan Hukum Islam*, 1(1), 48–66.
- Zuhdi, M. H. (2017). Prinsip-prinsip Akad Dalam Transaksi Ekonomi Islam. *IqtiShaduNa Jurnal Ekonomi Syariah*, viii(2), 77–115. Retrieved from <https://journal.uinmataram.ac.id/index.php/iqtishaduna/article/view/403/167>.