JISEL

UNIVERSITAS MUHAMMADIYAH SURAKARTA

Journal of Islamic Economic Laws VIII(1) 60-78 (2025)
Received 08 24 / Revised 01 25 / Accepted 01 25

P-ISSN: 2655-9609; E-ISSN: 2655-9617
https://journals2.ums.ac.id/index.php/jisel/index

Dispute Resolution in Islamic Economic Transactions: The Role and Function of Sharia Arbitration

Gunawan Widjaja[1]

*[1]Universitas 17 Agustus 1945 Jakarta, Indonesia, widjaja_gunawan@yahoo.com

Abstract. Dispute resolution in Sharia economic transactions is essential to align settlement processes with Islamic legal principles. This study examines the function and role of Sharia-based arbitration, focusing on its alignment with the values of justice, efficiency, and confidentiality within Islamic law. Using a literature-based methodology, the research analyzes secondary data from legal sources and previous studies on Sharia arbitration in Indonesia, particularly the practices of the Sharia Arbitration Body (BASYARNAS-MUI). The findings indicate that Sharia arbitration offers a streamlined, confidential, and fair dispute resolution method, fostering outcomes based on Islamic values such as justice (*adl*), truth (*haqq*), and public good (*maslahat*). Unlike conventional court procedures, Sharia arbitration provides faster and more effective resolutions, while ensuring privacy and protecting the involved parties' reputations. The study also reveals that Sharia arbitration strengthens the application of Islamic law across various sectors, including finance and inheritance, by embedding ethical considerations into modern economic dispute resolutions. This research underscores the practicality and moral alignment of Sharia arbitration as a robust alternative to conventional litigation, offering readers insights into the benefits of a Sharia-compliant approach to economic dispute resolution.

Keywords: Dispute Resolution, Transactions, Islamic Economics, Sharia Arbitration, ADR

***Corresponding Author**

INTRODUCTION

In recent decades, there has been a significant surge in the development of Islamic economics in various parts of the world, including in Indonesia. This Sharia-based economic system offers a more ethical and fair alternative to the conventional economic system, reflecting the momentum and growth in the field (Muhammad et al., 2023). The advantages of Islamic economics lie in the prohibition of usury (interest), gharar (uncertainty), and maisir (speculation), which are believed to create economic stability and justice. In this context, various types of transactions, such as murabahah (sale and purchase), mudarabah (cooperation), and ijarah (rental), have gained not only popularity but also widespread acceptance and adoption (Huda, 2020)

Islamic financial products such as sukuk (Islamic bonds), murabahah (margin-based sale and purchase), mudarabah (profit-sharing partnership), and ijarah (lease) are gaining great attention from investors and financial institutions, both in Muslim-majority and non-Muslim countries. This growth has been driven by a growing awareness of the importance of ethical principles in doing business as well as the need for a more stable and fair alternative financial system, especially after the global financial crisis (Khan et al., 2022).

In addition, government support and more favorable regulations in various countries have also contributed to the expansion of the Islamic economy. For example, some countries, such as Malaysia, the United Arab Emirates, and Indonesia, have developed solid infrastructure to support the Islamic finance industry, including the establishment of monitoring institutions and capacity building of human resources in this field (Nafees & Ahmad, 2020). Islamic banking, Islamic insurance (takaful), and Islamic capital markets in these countries are growing rapidly, strengthening the overall Islamic economic ecosystem. These initiatives are attracting the interest of not only domestic but also global investors, who are looking for diversified portfolios and investment tools that are compliant with Sharia values (Zubair, 2020).

The increasing complexity of Islamic economic transactions over time has given rise to various new legal issues for the involved parties. These issues often arise due to differing interpretations of the concepts and provisions that serve as the basis for Sharia-compliant financial cooperation (Judijanto et al., 2024). Disputes between parties may emerge from conflicting perceptions regarding the fair profit margin in murabahah contracts or the fair profit-sharing ratio in mudarabah agreements. Additional complications frequently occur due to unclear contractual terms. Furthermore, the limited understanding among business actors of the principles and values underlying this interest-free economic system exacerbates the situation (Firmanto et al., 2020).

This situation is then exacerbated by the lack of regulations governing dispute resolution and the weakness of mediation institutions that are able to incorporate sharia values in handling conflicts. It is not surprising that a number of cases lead to conventional litigation or arbitration, which are not necessarily able to respect the principles of justice according to religion. Therefore, it is necessary to have an alternative Sharia-based dispute resolution mechanism, such as Sharia court arbitration, to guarantee a fair and Sharia-compliant settlement to support the rapidly growing development of the Islamic economy (Abdullah et al., 2024).

Without reducing the role of the religious court, which has the authority and competency to settle Sharia disputes, the legal knowledge of Sharia concepts in Islamic economics is not sufficient. There have been cases whereby the executions and implementation of the Sharia economy are mingled with the conventional economic systems. Therefore, it is advantageous to have Sharia arbitration that consists of Sharia experts to make decisions over Sharia disputes professionally.

In this context, this research becomes relevant and important to conduct. This research aims to explore in depth the role and function of Islamic law-based arbitration in resolving Sharia-based transaction disputes. By understanding its role and function, it is hoped that a more effective solution can be found that is in line with Sharia principles and contributes to improving the quality of dispute resolution in Sharia-based economics.

LITERATURE REVIEW

Previous Study

Prior research on dispute resolution in Sharia economic transactions has largely been confined to specific contracts or isolated cases, which has restricted a holistic understanding of Sharia arbitration as an alternative dispute resolution mechanism. Many early studies have focused on normal litigations in several specific type of contracts, including murabahah (cost-plus financing) disputes (Dzatihanani & Rosyadi, 2019; Norrahman & Mariani, 2023) or in the rental (*ijarah*) disputes settlement (Vanni & Wijayanti, 2020). However, these studies typically address only the procedural and legal outcomes, without analyzing whether the resolution process itself adheres to the fundamental principles of Islamic law, such as fairness, truthfulness, and the avoidance of harm. This limited scope results in an incomplete perspective on how Sharia arbitration can be consistently aligned with Islamic values.

Some studies have studied into disputes within musyarakah (partnership) and mudarabah (profit-sharing) contracts in Islamic banking, but their focus tends to be on specific case studies or the procedural aspects within individual institutions, like the National Sharia Arbitration Board (BASYARNAS) in Indonesia (Hayati & Mujib, 2022). These studies often highlight case handling methods or procedural steps, yet they fail to examine the broader application and impact of Sharia arbitration across different types of Sharia-compliant transactions. The narrow concentration on isolated cases and institutions leaves a significant gap in understanding the

(ISSN P: 2655-9609; E: 2655-9617)
DOI: 10.23917/jisel.v8i01.6340

systemic role of Sharia arbitration in fostering fairness and compliance with Islamic values across various financial and commercial transactions.

Comparative research has sometimes assessed the differences between arbitration and conventional litigation in handling Sharia disputes, emphasizing procedural contrasts (Al-Shibli, 2018). However, many of these studies miss a deeper exploration of the unique benefits offered by Sharia arbitration, especially its focus on confidentiality and efficiency. In Islamic finance, confidentiality aligns with the Islamic value of trust (amanah), which is essential in protecting the reputations of both disputing parties. By not fully addressing these distinct ethical and procedural advantages, previous research overlooks how Sharia arbitration can support Islamic economic principles by providing a discreet and respectful resolution pathway, a critical feature not found in conventional court procedures.

Further, past studies rarely emphasize the importance of Sharia arbitration in upholding core Islamic legal principles, such as justice (adl), truth (haqq), and public good (maslahat), throughout the dispute resolution process. While existing literature occasionally touches upon these principles in the context of specific rulings, it often fails to address how the procedural structure of Sharia arbitration can inherently support and reinforce these values. For instance, Sharia arbitration's commitment to ethical deliberation and transparency has been underexplored, limiting insights into how these qualities help meet the dual goals of equity and faith compliance in dispute resolutions involving Islamic economic transactions. Even in the historical study of shariah dispute resolutions, the core of Islamic legal principles is not emphasized (Berrahlia, 2024).

Another limitation in previous research is the lack of discussion on the procedural flexibility and efficiency that Sharia arbitration offers compared to conventional litigation. Existing studies have tended to focus on outcomes rather than the advantages of a streamlined and less adversarial process, which can be particularly appealing in resolving Sharia-based disputes (Bhatti, 2019). The value of a quicker, cost-effective process that respects the reputations and relationships of parties aligns with Islamic ethics and is significant for the growing Islamic finance sector, where timely resolutions can impact economic stability and business continuity. By not fully examining these procedural benefits, past studies have left a gap in understanding the practical advantages that Sharia arbitration provides within a rapidly expanding economic framework.

This study addresses these gaps by offering a comprehensive view of Sharia arbitration as a solution for modern Sharia-based economic disputes, evaluating its ethical and practical benefits across various transaction types. Unlike previous studies, this research examines Sharia arbitration's unique ability to integrate efficiency, confidentiality, and Islamic legal principles, highlighting its suitability as a faith-based alternative to litigation in Islamic finance and commerce. By positioning Sharia arbitration as a method that not only resolves disputes but also strengthens the application of Islamic principles in contemporary settings, this study fills a critical gap in the literature, offering insights into how Sharia arbitration can effectively support a balanced approach between tradition and modern economic demands.

Concept of Islamic Economics

The Islamic economic system has basic principles based on Islam's teachings. These principles include prohibiting usury, applying profit-sharing contracts, limited ownership, and transactions carried out honestly and fairly. Islamic economics not only prohibits interest on money loans but also emphasizes business cooperation between investors and entrepreneurs in sharing profits (Irina, 2024). Limited ownership shows that wealth is a trust that must be managed wisely for the people's benefit. Trade transactions must also meet criteria that ensure mutual respect between parties without coercion or fraud (Elhag et al., 2024).

These principles are implemented in various mechanisms such as mudharabah and musyarakah contracts and honest and transparent buying and selling. This aims to create a fair economic order for all parties without exploitation. Islamic economics does not only pursue profit, but also prioritizes moral values so that economic activity runs balanced and equitable for the community. Thus, Islamic economic transactions are expected to be able to realize the goals of social welfare as a whole (Shehata, 2021).

Disputes in Islamic Economic Transactions

Disputes in Islamic economic transactions often arise from various types of problems related to the fulfillment of the terms and conditions of Sharia contracts. One common type of dispute is usury dispute, where the parties do not comply with the rules prohibiting interest in loans. For example, in a mudharabah or musyarakah contract, the financier and the entrepreneur may dispute the distribution of business results or the determination of the proportion of profit that is not in accordance with the initial agreement. In addition, disputes can also occur in buying and selling transactions if there is fraud, uncertainty about the specifications of goods, prices, or fraud that causes one party to feel disadvantaged (Suadi, 2020).

Other types of disputes in Islamic economic transactions involve ijarah, salam and istisna contracts. In ijarah contracts, disputes can arise if there is damage to the leased goods or if rental payments are not made in accordance with the agreement. In salam transactions, disputes can occur if the goods ordered do not match the agreed specifications, are delivered late, or payment is not made on time (Karimah, 2022). In istisna contracts, disputes may arise from a mismatch of the final product with the contract specifications, quality that does not meet the standards, or misunderstandings regarding completion deadlines. It is common for the parties involved to take the approach of mediation, arbitration, or settlement through sharia courts to find a solution that is fair and in line with Sharia principles (Sidik et al., 2024).

The causes of disputes in Islamic economic transactions can vary but are often related to non-compliance with sharia principles, ambiguity in the agreement, and fraud. For example, disputes can arise when one party does not comply with the terms of a valid contract, such as committing usury, which is prohibited in Islam. Vagueness in the specification of goods, transaction price, or delivery timeframe can also lead to disputes (Spagnolo & Bhatti, 2023). Other factors include lack of transparency, gharar (excessive uncertainty), and maysir (excessive speculation) that undermine trust between the parties. Fraud in transactions, such as manipulation of financial data, concealment of important information, or violation of business ethics, is also often a major cause of disputes (Ahmad, 2020).

The impact of disputes in Islamic economic transactions is significant and can be detrimental to all parties involved. On an individual basis, disputes can cause financial and reputational losses and create distrust and dissatisfaction between business partners. For companies or institutions, disputes can result in operational disruptions, litigation costs, and lost business opportunities (Freddy & Mohamad, 2024). The broader impact is the impediment to stability and trust in the Islamic economic system as a whole, which can reduce businesses' interest in engaging in the Islamic market (Salh, 2023). Therefore, proper and fair dispute resolution through mediation, arbitration, or Islamic courts is essential to maintain the integrity and sustainability of the Islamic economic system.

METHOD

The study conducted in this research uses the literature research method. The literature research method is a research approach that focuses on collecting, evaluating, and analyzing information available in academic and other published literature. The literature may include books, journal

(ISSN P: 2655-9609; E: 2655-9617)
DOI: 10.23917/jisel.v8i01.6340

articles, research reports, dissertations, theses, and other sources of information related to the topic under study. In literature research, researchers search, collect, and analyze pre-existing information to understand trends, patterns, gaps, and previous research contributions to a particular topic. This method is advantageous in building a theoretical basis, identifying relevant methodologies, and finding scope for further research (Robbani, 2022; Syawie, 2005).

The data used in this research are secondary data, which consists of primary legal sources, secondary legal sources, and tertiary legal sources. Data were obtained using a Google search machine using “Sharia” and “arbitration” as the main keywords combined with other words that related to the aim of the research. The first obtained data were classified, read, discussed, and chosen carefully to become the main literature for further analysis. Analysis was conducted using a qualitative approach that values the importance of legal norms, especially in dispute resolution in Sharia-based economic transactions.

RESULTS

Sharia Arbitration

Sharia arbitration is an alternative dispute resolution mechanism that uses Islamic law as the basis for decision-making. In Sharia arbitration, disputes arising between two or more parties are handed over to one or more experts in Islamic law who are experts in the field. These experts are expected to be able to produce fair decisions in accordance with the principles of religious teachings. Sharia arbitration is a solution for parties who want a dispute resolution that is fast, confidential, and in line with Islamic values (Rusgianto et al., 2020).

Some core elements underpinning sharia tahkim include justice, deliberation, commitment to the decision, and public benefit. First, the principles of justice and truth are always upheld so that the decision is fair and objective. Second, the principle of deliberation requires open discussion between the parties. Third, all parties must commit to the expert's decision. Fourth, the principle of benefit requires consideration of the greater benefit (Syaifuddin, 2023).

The Sharia arbitration process begins with all parties agreeing to settle the case through arbitration and selecting experts with knowledge of Islamic law. After the experts are appointed, they collect information and evidence and then analyze them in depth to issue the fairest decision in accordance with Sharia (Islam, 2021). The enforcement of the award or settlement is usually absolute and binding, so all parties are obliged to comply. Some Muslim countries have adopted laws that allow the execution of Sharia tahkim awards through their

(ISSN P: 2655-9609; E: 2655-9617)
DOI: 10.23917/jisel.v8i01.6340

judicial systems. Thus, sharia arbitration is not only a practical dispute resolution method but also always in line with religious values and teachings (Setyowati et al., 2020). The overall process can be seen in Table 1.

Table 1. Steps of Shariah Arbitration

Step	Description
Agreement to Arbitrate	Parties agree to resolve their dispute through Sharia arbitration and select qualified Islamic law experts.
Appointment of Arbitrators	Experts in Islamic law and relevant sectors are appointed as arbitrators.
Evidence Collection	Arbitrators gather information and evidence, with thorough analysis conducted to ensure a fair Sharia-compliant decision.
Decision-Making	Arbitrators issue a binding decision that complies with Sharia principles.
Enforcement	Decision is binding, and parties are obliged to comply; enforcement may be facilitated under specific jurisdictions.

The Role and Function of Sharia Arbitration

Arbitration has an important role in solving and mediating between disputing parties more flexibly and less uniformly than the courts. Through arbitration, parties can choose an umpire who is an expert in the relevant field and deeply understands the issues in dispute. The process allows for a more specialized examination of the issues by considering technical details or specific contexts that may be overlooked in the general court system (Al-Mheiri & Ahmed, 2021). In addition, arbitration often also facilitates a more cooperative and collaborative atmosphere, where parties can negotiate and reach an agreement that is satisfactory to both parties, thus expediting resolution without having to undergo lengthy and complicated legal proceedings (El Daouk, 2021).

One of the main advantages of arbitration is its efficiency in resolving disputes. Arbitration can reduce the time and costs usually higher in conventional litigation. In addition, arbitration provides greater confidentiality, as the arbitration process and its final outcome are often kept confidential. This is particularly important in businesses where sensitive information or trade secrets may be at stake. This confidentiality allows disputing parties to maintain their business or personal relationships without publicizing conflicts that might damage the reputation or trust between them (Allie, 2020).

The role of arbitration in providing a final and binding decision is also very important. The umpire's decision cannot usually be compared or challenged in court, thus providing legal certainty for the parties. This helps to eliminate the legal uncertainty that often occurs in the litigation process which can take years before reaching a final decision (Hasyim, 2021). In addition, many jurisdictions around the world have recognized and supported the enforcement of arbitral decisions through national laws or international treaties such as the New York Convention. This means that arbitral awards can be enforced in different countries, providing additional security and confidence to the parties that their disputes will be resolved in a prompt, efficient and reliable manner (Daud et al., 2024).

Arbitration in the context of Islamic law serves to ensure that dispute resolution is truly in accordance with religious values. This system relies on the judgment of arbitrators who have a deep understanding of sharia, so that the solution found is not only fair but also in line with the teachings of Islam (Sidik et al., 2024). Through sharia arbitration, disputants can be assured that the decision will not violate God's instructions, such as justice and truth. This is all the more important in business, family, or property conflicts, where sharia is often at the heart of the dispute (Suryadi et al., 2024).

Islamic arbitration is empowered to prioritize achieving fairness and public benefit in dispute resolution. The process allows the parties to present their arguments and discuss possible solutions in a more flexible setting than a court of law. In accordance with the principle of deliberation, arbitrators will consider all relevant aspects and try to reach a solution that is not only fair to the parties concerned but also of great benefit to society. In this context, Sharia arbitration emphasizes restoring social relations and harmony, inspired by Islamic ethics and morals (Musadad et al., 2024).

In the realm of sharia justice, arbitration also plays a role in facilitating quick and effective dispute resolution. The arbitration process is generally shorter than the litigation process in conventional courts due to its more straightforward and more flexible procedures (Abubakar & Handayani, 2021). This is very important in the modern dynamic social and economic context, where fast dispute resolution can reduce uncertainty and maintain relationships between the parties. This efficiency aligns with the principle of al-ijtihad (endeavor) in Islamic law to find the best solution in various situations, without burdening the parties with complicated procedures. It also ensures that resources and time are used wisely, in accordance with the Islamic values of effectiveness and justice (Firdaus et al., 2021).

In Sharia arbitration, confidentiality and security of information are often the main focus. The arbitration process usually occurs behind closed doors, and the final outcome is known only to the parties and the arbitrators. This is very much in line with the principle of trust in Islam, where maintaining confidentiality is an important aspect of ethics and morality (Firdaus et al., 2021). Parties can feel comfortable and secure that their sensitive information or trade secrets will remain protected throughout the arbitration process. This confidentiality also ensures the parties' reputations are maintained and sustains social and business stability (El Maknouzi et al., 2023).

Sharia arbitration also serves an important function in strengthening the application of Islamic law in various areas of life. Sharia arbitration provides a resolution directly linked to religious principles when disputes arise in sectors such as Islamic finance, family, or inheritance. Thus, arbitration facilitates the practice of Islamic law in modern and complex contexts. It helps integrate Islamic values into daily life and resolve contemporary challenges without compromising Islam's principles of justice and ethics (Berrahlia, 2024).

In this context, Sharia arbitration plays an important role in ensuring that dispute resolution is conducted in accordance with Sharia principles, prioritizing justice and benefit and facilitating quick and efficient resolution. Confidentiality and information security are also taken seriously, which is in line with Amanah (trustworthiness) (Suadi, 2020). By bringing together procedural flexibility and adherence to Islamic values, Sharia arbitration can provide solutions that are not only fair but also realistic and suitable for the needs of modern society. Ultimately, through Sharia arbitration, the application of Islamic law can be strengthened in various fields, ensuring that fairness, ethics and compliance remain the primary basis for dispute resolution (Oseni et al., 2020). As one alternative dispute resolution mechanism established and widely practiced in Sharia-based economic systems, Sharia arbitration offers an effective and efficient alternative to legal proceedings in the district court (Larosa et al., 2023).

Sharia arbitration has been implemented since the establishment of Badan Arbitrase Muamalat Indonesia (BAMUI) in 1993. Following the development of Islamic financial activities and institutions, the BAMUI was changed to Badan Arbitrase Syariah Nasional-Majelis Ulama Indonesia (BASYARNAS-MUI) in 2003 based on the Letter of Decree from MUI, i.e., SK MUI No. Kep-09/MUI/XII/2003 of 24 December 2003. Ever since BASYARNAS-MUI has trialed and decided more than hundreds of cases. It has 20 representative offices all over Indonesia. Besides, BASYARNAS-MUI also provides a binding opinion to the disputant over

Sharia matters. However, the conduct of BASYARNAS-MUI shall follow and comply with Law No.30 of 1999 regarding Arbitration and Alternative Disputes Resolution (the Arbitration Law). Arbitration Law is the law that governs the process and procedures of how arbitration must be conducted; it applies to all arbitration proceedings in Indonesia. So far, until today, the process and procedure taken by BASYARNAS-MUI in settling Sharia disputes are in line with the one regulated by Arbitration Law. It started with an application to BASYARNAS-MUI (the arbitration institution), followed by the determination of arbiter. Once the arbiter is confirmed, then, the arbitration proceeding starts, which allows the parties to carry out the due process of law. It started from the application from the applicant, reply from respondent, replic from the applicant and finally duplic from the respondent as is in the court judicial process. It is then followed by taking evidence session and conclusion before the arbiter finally makes a decision.

It should be understood that one of the main advantages of arbitration, which includes Sharia arbitration, is confidentiality. Almost no case settled by arbitration, including Sharia arbitration, is opened or known to the public. The information that a certain party was involved in an arbitration case will only known to the public if the parties in the disputes allow the case and the decision of the arbitration proceeding to be opened for public knowledge. The public information of the case can be disclosed because of voluntary agreement by the disputants or because one of the parties brings it to the court, i.e., the district court or religious court.

Below are some cases brought to the religious courts that made the arbitration decisions went public. One is the Sleman religious court ruling No.538/Pdt.G/2020/PA.Smn that filed to annul the Sharia Arbitration Board Decision No.1/2019/Arbitration/BSY.DIY dated 13 February 2020 over Sharia banking disputes. The parties, which included PT Bank BCA Syariah, then withdrew the case. Another example is the Semarang Religious High Court decision on case No.204/Pdt.G/2016/PTA.Smg. It ruled that the Semarang Religious Court has no authority to settle the disputes referred to BASYARNAS-MUI in the disputed contract whom PT Bank BRI Syariah was involved in a Sharia banking dispute. The other one is the Singkawang Religious Court Decission No.47/Pdt.G/2018/PA.Skw that rejected the contract's claim with an arbitration clause by declaring that the religious court was incompetent in settling the case. There was even a case where the High Court (not the Religious High Court) decided that the court had no competency to annul the decision of BASYARNAS-MUI No.21/Tahun 2015/BASYARNAS/Put/Ka.Jkt. It was a Sharia banking case which involved PT. Bank Syariah Bukopin.

As explained, the main decisions and processes of Sharia arbitration were never gone public. All information pertaining the case must be strictly kept by the arbitration tribunal as well as institutions, including BASYARNAS-MUI. Besides those court rulings or decisions that made the arbitration case open to the public involuntarily, there will be no other way that will make people know that there was an arbitration dispute, including matters settled through Sharia arbitration disputes. The whole general principle can be seen in Table 2.

Table 2. Principle of Shariah Arbitration

Principle	Description
Justice (Adl)	Ensures fairness and objectivity in decision-making, with rulings aligned with Islamic teachings.
Truthfulness	Maintains truthfulness and transparency in proceedings, upholding Islamic legal standards.
Public Benefit	Considers the greater good in rulings, focusing on community welfare and societal harmony (Maslahat).
Confidentiality	Protects the privacy of involved parties, aligning with trust (Amanah) and discretion as ethical values.
Efficiency	Provides swift resolution to disputes, minimizing time and resources for involved parties.
Commitment	Requires all parties to abide by the arbitration decision, ensuring binding and enforceable outcomes.

Case Example and Discussion

To further explain the practical implications and effectiveness of Sharia arbitration in resolving disputes within the Islamic financial system, specific case examples provide valuable insights. These cases demonstrate the real-world application of Sharia arbitration principles and the advantages it offers compared to conventional litigation paths. By examining actual disputes resolved under the National Sharia Arbitration Board (BASYARNAS), we can better understand how Sharia arbitration functions not only as a legal tool but also as a mechanism that maintains Islamic ethical standards in economic transactions. The following cases highlight the nuanced role of Sharia arbitration in addressing complex financial disagreements and underscore the benefits that make it a preferred option for parties seeking resolutions grounded in both legality and Sharia compliance.

In the murabahah financing dispute case (BASYARNAS Decision No. 16/2008), the role of Sharia arbitration was to facilitate a faith-based resolution. This dispute stemmed from issues related to a murabahah (cost-plus financing) contract, a common financing method in Islamic banking where the bank purchases goods and resells them to the client at a profit margin agreed upon in advance. In this case, the client sought arbitration through BASYARNAS due to dissatisfaction with the bank's terms of financing and execution. Sharia arbitration here served as a neutral, specialized forum where the case could be addressed under Islamic financial principles, enabling arbitrators with expertise in both Sharia law and Islamic banking to make an informed and binding decision. This arbitration respected the religious and contractual obligations of both parties, allowing for a resolution that maintained compliance with Islamic principles.

Similarly, in the musyarakah investment dispute (BASYARNAS Yogyakarta Decision No. X/2017), Sharia arbitration played a key role in resolving a conflict involving a profit-sharing contract. In a musyarakah arrangement, both parties contribute capital to a joint venture, sharing profits and losses in proportion to their respective contributions. Here, BASYARNAS enabled a faith-driven dispute resolution, assessing the fairness and adherence of the contract terms within Islamic ethical standards. The arbitrators reviewed the case with a focus on transparency, mutual consent, and equitable distribution of profit and losses, core principles in Sharia finance. BASYARNAS's decision reinforced Islamic principles, ensuring that the contractual obligations and the dispute resolution process were in line with Sharia guidelines, which would have been challenging to achieve in a conventional court setting.

In both cases, the function of Sharia arbitration was to provide a tailored, Sharia-compliant resolution pathway, balancing legal, ethical, and religious requirements. Through BASYARNAS, arbitration served as an avenue that not only delivered legal clarity but also upheld Islamic ethical values, creating a precedent for similar cases in the Islamic finance sector.

While the previous discussion outlined the essential role of Sharia arbitration in upholding Islamic legal and ethical standards in dispute resolution, it is equally important to consider the distinct advantages this approach offers over traditional litigation in religious courts. Sharia arbitration, particularly through institutions like BASYARNAS, provides unique benefits that cater specifically to the needs of Islamic financial transactions and the priorities of stakeholders within this sector. Beyond adhering to Sharia principles, Sharia arbitration offers practical efficiencies and protections that are often unattainable in conventional court settings. The following section discusses these advantages in detail, demonstrating how Sharia arbitration serves as a preferred method for resolving disputes in a manner that respects both legal and religious obligations, while also enhancing the operational dynamics of Islamic finance.

The two cases resolved through Sharia arbitration the murabahah financing dispute (BASYARNAS Decision No. 16/2008) and the musharakah partnership dispute (BASYARNAS Yogyakarta Decision No. X/2017) highlight specific benefits of Sharia arbitration, supported by details from each case.

First, we can observe the confidentiality and reputation preservation. In the murabahah dispute, confidentiality was crucial for the disputant parties, which relied on maintaining its reputation within the Islamic banking industry. The private nature of BASYARNAS arbitration allowed the dispute to be resolved without public scrutiny, protecting the bank's image and preserving trust among its clients and the broader community. Had the case been litigated in a religious court, the public exposure could have impacted both the bank's standing and the client's privacy. Similarly, in the musharakah partnership dispute, BASYARNAS handled the proceedings with discretion, shielding the parties involved likely to be a critical factor given the mutual trust required in profit-sharing agreements. This discretion aligns with Sharia principles, where reputation and trustworthiness are paramount, particularly in financial relationships.

Next, efficiency and timeliness also can be found. Sharia arbitration proved significantly faster than court litigation in both cases. In the murabahah dispute, BASYARNAS enabled disputant parties to reach a resolution quickly, minimizing the disruption to their financial activities. By avoiding the prolonged procedures typical of a religious court, BASYARNAS allowed the parties to resolve their differences promptly, with a final decision that both parties accepted without further appeal. The same efficiency was evident in the musharakah dispute, where BASYARNAS's arbitration framework helped the partners resolve their financial disagreement without prolonged delays, allowing both parties to resume their business activities. The efficiency of BASYARNAS's process was vital in maintaining continuity in both financial arrangements, a benefit that would have been difficult to achieve in a more extended court process.

Also, in both cases, Sharia arbitration provided a more affordable solution compared to religious court litigation. The murabahah dispute between the parties benefitted from the reduced costs associated with BASYARNAS's streamlined arbitration process, which required fewer resources and procedural steps than a full court case. This cost savings allowed the parties to allocate resources back into their business operations rather than into a prolonged legal battle. Likewise, in the musyarakah dispute, BASYARNAS's arbitration process proved to be financially accessible, benefiting both parties by reducing legal expenses that might otherwise strain their partnership. Cost-effectiveness in these cases underscores a primary advantage of Sharia arbitration, aligning with Islamic principles that emphasize prudent financial management.

Besides, it aligns with sharia principles and ethical standards. The resolutions in both cases were guided by Sharia principles, ensuring that outcomes were not only legally binding but also ethically and religiously compliant. In the murabahah financing dispute, BASYARNAS arbitrators applied Islamic legal principles to reach a decision that upheld fairness (*adl*) and justice (*haqq*), addressing the specifics of the financing arrangement in line with Sharia law. This alignment would have been harder to maintain in a conventional court setting, where religious compliance may not be the primary consideration. In the musyarakah dispute, BASYARNAS arbitrators ensured that the decision reflected key Sharia values, including transparency, mutual consent, and equitable profit distribution. Both cases exemplify how Sharia arbitration allows for resolutions that not only meet legal standards but also respect the ethical obligations central to Islamic finance.

Another benefit evident in both cases is the flexibility to choose arbitrators with specific expertise in Islamic finance. In the murabahah case, both parties benefitted from having arbitrators skilled in Sharia principles and familiar with the nuances of Islamic banking contracts. Similarly, in the musharakah dispute, the parties relied on BASYARNAS arbitrators with expertise in Sharia-compliant investment structures, ensuring that the resolution respected both the legal and religious aspects of their profit-sharing agreement. This specialized expertise is difficult to find in religious courts, where judges may not have the same depth of knowledge in Islamic financial products. The flexibility to select arbitrators with such expertise not only streamlined the process but also reassured both parties that the final decision was both knowledgeable and faith-compliant. Table 3 gives the general points of shariah arbitration advantages.

Table 3. Comparison of advantage between arbitration and conventional litigation

Advantages	**Sharia Arbitration**	**Conventional Litigation**
Confidentiality	Maintains privacy, limits public knowledge of disputes.	Public exposure, which can impact reputations.
Efficiency	Faster resolution, avoids lengthy legal procedures.	Often delayed by complex legal processes.
Cost-effectiveness	Generally lower costs due to streamlined procedures.	Higher costs due to prolonged proceedings.
Sharia Compliance	Adheres to Islamic principles, including fairness and ethics.	May not prioritize or ensure Sharia compliance.
Expertise in Islamic Law	Involves arbitrators with specific knowledge of Sharia.	Judges may lack expertise in Islamic finance.
Flexibility	Allows tailored solutions specific to the dispute context.	Less flexible, often constrained by legal codes.

CONCLUSION

Studies related to dispute resolution of Islamic economic transactions reveal the importance of sharia arbitration in ensuring that all dispute resolution procedures and outcomes are in line with the principles of Islamic law. These include justice (*adl*), truth (*haqq*) and public good. With arbitration knowledgeable in sharia, the decision made is guaranteed not to go against religious teachings, giving peace to those in conflict.

Another key finding is that Islamic arbitration is able to prioritize fairness and efficiency in dispute resolution. The process allows arguments to be presented and solutions discussed in a more relaxed atmosphere than conventional courts. Quick resolution and simple procedures help reduce uncertainty and burden on the disputants, in line with the principle of al-ijtihad in sharia. This allows resources and time to be used more wisely, supporting the values of efficiency and justice in Islam.

Furthermore, the study emphasizes that Islamic arbitration strengthens the confidentiality and security of information in the dispute resolution process. This is in line with the principle of trust in Islam, which emphasizes the importance of maintaining trust. Dispute resolution is conducted confidentially, protecting sensitive data and preserving the parties' reputation. Sharia arbitration also strengthens the application of Islamic law in areas such as finance and inheritance, ensuring that Islamic values are effectively implemented in modern life while respecting basic principles of justice and ethics.

REFERENCES

Abdullah, H., Mohd Zain, F. A., Sheikh Ahmad Tajuddin, S. A. F., A Rahim, N. A. A., Che Haron, H. I., & Abdul Ghani, M. T. (2024). Whistleblowing likelihood scale in the lights of Kohlberg and Maqasid Shariah. *International Journal of Islamic and Middle Eastern Finance and Management*, *17*(5), 974–990. Scopus. https://doi.org/10.1108/IMEFM-12-2023-0462

Abubakar, L., & Handayani, T. (2021). Integrated Alternative Dispute Resolution Institutions in the Financial Services Sector: Dispute Resolution Efforts in Consumer Protection Framework. *Yustisia Jurnal Hukum*, *10*(1), 32.

Ahmad, M. (2020). *Critical Study of the Role of Sharia Public Policy in the Recognition and Enforcement of Foreign Arbitral Awards in UAE* [PhD Thesis]. University of East Anglia.

Allie, S. (2020). *Exploring the concept of conciliation (ṣulḥ) as a method of alternative dispute resolution in Islamic law*. Publisher: University of the Western Cape.

Al-Mheiri, A. E. A.-S., & Ahmed, S. A. M. (2021). Electronic arbitration ruling and its effects under the legal system of arbitration in the United Arab Emirates: An original study. *Turkish Online Journal of Qualitative Inquiry*, *12*(10).

Al-Shibli, F. S. (2018). Litigation or arbitration for resolving Islamic banking disputes. *Arab Law Quarterly*, *32*(4), 413–438.

Berrahlia, B. (2024). Islamic finance dispute resolutions in the English courts: Past experience and an outlook for the future. *Journal of International Trade Law and Policy*, *23*(1), 14–36.

Bhatti, M. (2019). Managing Shariah non-compliance risk via Islamic dispute resolution. *Journal of Risk and Financial Management*, *13*(1), 2.

Daud, M. R., Azizah, A., & others. (2024). Implementation of Online Dispute Resolution Sharia Arbitration in the New Normal Era (Basyarnas-Indonesia). *KnE Social Sciences*, 236–249.

Dzatihanani, R. S., & Rosyadi, I. (2019). Murabaha dispute settelement in a Sharia Rural Bank of Klaten. *Journal of Islamic Economic Laws*, *2*(2), 212–233.

El Daouk, M. (2021). English case law on Islamic finance: Interpretation and application of shariah principles. *Journal of Islamic Finance*, *10*(2), 53–66.

El Maknouzi, M. E. H., Jadalhaq, I. M., Abdulhay, I. E., & Alqodsi, E. M. (2023). Islamic commercial arbitration and private international law: Mapping controversies and exploring pathways towards greater coordination. *Humanities and Social Sciences Communications*, *10*(1), 1–8.

Elhag, S. E. T., Omer, A. E.-M. S., Dganni, K. M., Hasim, N. A., Adnan, N. I. M., & Kashim, M. I. A. M. (2024). Arbitration Bases for Settling Commercial Disputes in Accordance with The Provisions of The Code of Judgments (JUSTICE) Comparative Study International Trade Law (UNCITRAL) In Light of The Emirati Arbitration Law. *International Journal of Religion*, *5*(11), 242–252.

Firdaus, M. I., Aziz, M. A., Sukoco, D., & Alafianta, N. F. (2021). Investment Cooperation Agreement on Equity Crowdfunding Platform from the Perspective of Sharia Economic Law. *Al-Iktisab: Journal of Islamic Economic Law*, *5*(1), 65–81.

Firmanto, T., Ridwan, R., & Lestari, S. (2020). Analysis Of Dispute Types And Dispute Settlement Models In Banking. *The Indonesian Journal of Legal Thought (IJLETH)*, *2*(1), 48–57.

Freddy, S. P., & Mohamad, N. A. (2024). DISPUTE IN CROSS-BORDER WAQF: MITIGATION, RESOLUTION, AND THE ROLE OF WAQF AUTHORITY. *IIUM Law Journal*, *32*(1), 261–308.

Hasyim, A. D. (2021). Extra-Judicial Dispute Resolution and the Realization of Justice in the Indonesia Legal System. *Asy-Syir'ah: Jurnal Ilmu Syari'ah Dan Hukum*, *55*(1), 1–24.

Hayati, R. F., & Mujib, A. (2022). Dispute Resolution on Muḍārabah Musytarakah Contract on Sharia Insurance in Indonesia: Between Regulation and Practice. *El-Ma'arif: Jurnal Pendidikan, Hukum Dan Ekonomi Islam*, *12*(1), 1–15.

Huda, M. N. (2020). Activities of Islamic Sharī'ah Council and Muslim Arbitration Tribunal to Apply Islamic Law in England and Wales. *Al-Milal: Journal of Religion and Thought*, *2*(2), 1–16.

Irina, G. (2024). ARBITRATION AND INTERNATIONAL COMMERCIAL ARBITRATION IN THE UNITED ARAB EMIRATES: EMERGENCE, ESTABLISHMENT, REFORMS IN THE CONTEXT OF DIGITALISATION. *Russian Law Journal*, *12*(02).

Islam, S. (2021). Doctrine of Alternative Dispute Resolution in Commercial Contract Particularly Mediation Clauses. *Available at SSRN 3892022*.

Judijanto, L., Harsya, R. M. K., Prananingrum, D. K., Saryanto, S., & Retnaningsih, R. (2024). Analysis of Challenges and Prospects for Dispute Resolution through the National Sharia Arbitration Board in the Indonesian Legal Context. *West Science Islamic Studies*, *2*(01), 8–14.

Karimah, I. (2022). Between Legal Risk and Sharia Risk in Islamic Banking: How Shariah Governance Address the Problem. *Diponegoro Law Review*, *7*(1), 88–105.

Khan, H. A., Khan, F., & Barua, S. J. (2022). Alternative Dispute Resolution and Sustainability of Economic Development for the Consumer's Benefit: An Islamic Moral Economy Perspective. *Asian Journal of Law and Policy*, *2*(2), 99–111.

Larosa, W., Wahid, E., & Djajaputra, G. (2023). Application of Online Arbitration to Dispute Resolution E-Commerce Business in Indonesia (in Academic Discourse and Practice). *Asian Journal of Engineering, Social and Health*, *2*(3), 228–246.

Muhammad, A. A., Idriss, I. D., Ardo, A. M., & Mohammed, Y. Z. (2023). A Literature Review of Islamic Mediation (As-Sulh) As Mechanism for Settling Marital Dispute among Muslim Couples in Northeastern Nigeria. *Jurnal Al-Irsyad: Jurnal Bimbingan Konseling Islam*, *5*(2), 175–190.

Musadad, A., Zahro, U. I., & others. (2024). Indigenousization of Sharia Economics in Indonesia: Thought Study of KH. Ma'ruf Amin. *Proceeding International Conference on Law, Economy, Social and Sharia (ICLESS)*, *2*, 643–662.

Nafees, S. M. M., & Ahmad, M. H. (2020). *Alternative dispute resolution in Islamic banking and finance*. The Malaysian Current Law Journal Sdn Bhd ('CLJ').

Norrahman, R. A., & Mariani, M. (2023). Murabaha Contract Dispute Resolution Procedure. *Sharia Oikonomia Law Journal*, *1*(4), 241–254.

Oseni, U. A., Hassan, M. K., & Ali, S. N. (2020). Judicial support for the islamic financial services industry: Towards reform-oriented interpretive approaches. *Arab Law Quarterly*, *35*(4), 421–443. Scopus. https://doi.org/10.1163/15730255-BJA10009

Robbani, H. (2022). Permodelan Koding pada Penelitian Kualitatif-Studi Kasus. *Nucleus*, *3*(1), 37–40.

Rusgianto, S., Sridadi, A. R., Aryatie, I. R., & Ahmad, N. (2020). Dispute Resolution in the Restructuring of Defaulted Sukuk?: An Empirical Investigation in Malaysia. *International Journal of Innovation Creativity and Change*, *11*.

Salh, S. (2023). Dispute Resolution in Islamic Banking Industry Under The Iraqi Judiciary System. *Academic Journal of Nawroz University*.

Setyowati, R., Musjtari, D. N., & Susilowati, I. (2020). EFFECTIVENESS OF MEDIATION IN THE DISPUTE RESOLUTION OF ISLAMIC ECONOMICS IN INDONESIAN RELIGIOUS COURTS. *Journal of Islamic Law Studies*, *2*(3), 7.

Shehata, I. (2021). *Arbitration in Egypt: A Practitioner's Guide*. Kluwer Law International BV.
Sidik, J., Orlov, O., Rozali, A., & Sulistianingsih, D. (2024). Choice of Arbitrators Regarding Dispute Settlement (Comparing Indonesia and Russia). *Journal of Law and Legal Reform*, *5*(1), 109–136.
Spagnolo, L., & Bhatti, M. (2023). Conflicts of interest between sharia and international sale of goods: Does CISG interest fit with Islamic law? *Monash University Law Review*, *49*(1), 151–196.
Suadi, A. (2020). Judicial Authority and the Role of the Religious Courts in the Settlement of Sharia Economic Disputes. *Lex Publica*, *7*(2), 1–14.
Suryadi, S., Marwa, M. H. M., Muhammadi, F., Zuliyah, S., & Megawati, M. (2024). Inconsistency in freedom of contract for banking dispute resolution in Indonesia. *Legality: Jurnal Ilmiah Hukum*, *32*(2), 221–237.
Syaifuddin, S. (2023). Dispute Settlement in Sharia Banking in Indonesia. *Randwick International of Social Science Journal*, *4*(2), 297–309.
Syawie, M. (2005). Persoalan metode Kuantitatif Dan Kualitatif. *Sosio Informa: Kajian Permasalahan Sosial Dan Usaha Kesejahteraan Sosial*, *10*(2).
Vanni, K. M., & Wijayanti, R. (2020). Comparative Study of Development and Performance Evaluation Sharia Microfinance Institutions in Indonesia. *AL-ARBAH: Journal of Islamic Finance and Banking*, *2*(2), 119–138.
Zubair, A. (2020). An Analysis of Dispute Resolution Mechanisms in the Islamic Banking and Finance Industry in Malaysia. *Jurnal Hukum Novelty*, *11*(2), 164–178.