Pricing Strategy for Islamic Banking Products: A Conceptual-Analytical Approach

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Abstract *- This study examines the pricing strategy for Islamic banking products from a conceptual-analytical perspective. Despite their religious foundations, Islamic banks often adopt interest-based benchmarks such as BI Rates, which raises concerns regarding Shariah compliance and authenticity. This paper explores the theoretical foundations of pricing in Islamic economics and proposes a Shariah-aligned pricing framework based on real risk, value-added, and maqāṣid al-sharīʿah (objectives of Islamic law). Using a qualitative, conceptual approach, the study finds that a pricing strategy rooted in justice, transparency, and socio-economic welfare offers a more ethically coherent alternative to conventional practices. The paper concludes with a conceptual model for Shariah-compliant pricing that integrates normative Islamic principles with practical financial sustainability considerations.*

Keywords*: Islamic Banking, Pricing Strategy, Maqāṣid Al-SharīʿAh, Benchmark, Shariah-Compliance, Conceptual Analysis*

I. INTRODUCTION

Islamic banking operates under a unique set of ethical and legal principles derived from the Shariah. Among its key differences from conventional banking is the prohibition of riba (interest). However, in practice, many Islamic banks continue to use interest-based benchmarks (BI-Rates) in setting prices for their products. This presents a tension between normative ideals and operational realities, raising questions about the authenticity of Islamic financial practices. Conventional pricing strategies typically adopt three main approaches: cost-based, value-based, and competition-based pricing (Kotler & Keller, 2016). Islamic financial theory urges that pricing should reflect not only market mechanisms but also ethical constraints rooted in divine law and public interest.

Islamic banking, grounded in the principles of Sharia, prohibits interest-based transactions, necessitating innovative pricing strategies that align with ethical and religious guidelines. Islamic banks, as institutions operating in accordance with Islamic principles, deliver financing and other services related to the circulation of money, all while adhering to Sharia principles (Nurhasanah & Melzatia, 2019). Islamic financial institutions distinguish themselves by adhering to Sharia-compliant practices, emphasizing profit and loss sharing, and fostering trading activities that yield equitable and legitimate profits, thus maintaining competitiveness and uniqueness (Sapian et al., 2020). Due to the prohibition of Riba (interest), Islamic banks must develop alternative pricing mechanisms that comply with Islamic law (Jarbou et al., 2024). The principles of equity, derived from the prohibition of predetermined payments, protect the weaker party in financial transactions while promoting fair treatment. Islamic and conventional banks aim to provide an efficient payment mechanism within the economy and seek profits through project financing (Jarbou et al., 2024). However, a key distinction lies in how they generate income, with conventional banks heavily reliant on interest rate differentials, while Islamic banks operate under the strict prohibition of interest (Jarbou et al., 2024). Islamic banking operates on profit and loss sharing contracts, distinguishing it fundamentally from traditional banking models, yet both models share the characteristic of being profit-oriented institutions (Aldeehani et al., 1999; Jarbou et al., 2024). The products offered by both models are analogous in practice; the main difference lies in the source of income (Jarbou et al., 2024).

Despite significant growth and global recognition, Islamic banking continues to face criticisms regarding its dependence on conventional financial benchmarks. The reliance on interest-based indicators for pricing undermines the authenticity of Islamic finance and creates a paradox between Shariah ideals and practical operations (Khan, 2010; Asutay, 2012). This tension has raised concerns over whether Islamic banks are truly offering distinct alternatives or merely replicating conventional practices under different contractual names.

Furthermore, existing literature reveals a lack of consensus on what constitutes a genuinely Shariah-compliant pricing framework. While scholars argue for the adoption of profit-and-loss sharing (PLS) mechanisms such as mudarabah and musharakah, the operational complexities, risk asymmetries, and informational constraints often limit their implementation (Siddiqi, 2006; Iqbal & Llewellyn, 2002). As a result, many Islamic banks gravitate toward debt-like instruments murabahah, ijarah, and tawarruq which are relatively easier to price but raise questions about their ethical robustness.

This issue is not merely operational but also conceptual and methodological. Islamic finance, as envisioned by its pioneers, was meant to serve broader objectives of maqāṣid al-sharīʻah, such as justice, equity, and social welfare (Chapra, 2000; Dusuki & Bouheraoua, 2011). Yet, when pricing mechanisms mirror conventional models without embedding ethical considerations, the transformative potential of Islamic finance becomes diminished.

Consequently, there is a pressing need to revisit pricing strategies within Islamic banking through a conceptual-analytical lens. Such an approach allows for the formulation of an alternative framework that is not only economically viable but also ethically grounded and Shariah-compliant. Addressing this gap is critical to ensuring that Islamic banking fulfills its dual role as both a financial intermediary and a vehicle for promoting socio-economic justice.

This paper seeks to address this disjunction by providing a conceptual-analytical examination of pricing strategies for Islamic banking products. The goal is to outline an alternative framework that is ethically robust, economically sound, and Shariah-compliant.

Literature Review

Pricing in Islamic Economics

Islamic pricing is traditionally grounded in market mechanisms tempered by ethical constraints. Classical jurists emphasized fair pricing, avoidance of monopolistic practices, and prohibition of unjustified price manipulation. The principle of al-ghunm bi al-ghurm (gain accompanies risk) underpins profit-and-loss sharing modes like musharakah and mudharabah. Pricing in Islamic economics is not viewed solely through the lens of market efficiency, but is also subject to ethical and legal considerations rooted in Shariah. Within the Islamic framework, prices are ideally determined by the forces of supply and demand in a free market, as long as the exchange process is conducted fairly, without manipulation, fraud, or harmful intervention (Kahf, 1995).

Pricing in Islamic Economic Thought is a cornerstone of Islamic finance, guiding principles of fairness, transparency, and ethical conduct in financial transactions (Panjaitan, 2019). The prohibition of interest, or Riba, is a central tenet that shapes alternative pricing mechanisms in Islamic banking, necessitating innovative approaches to ensure Sharia compliance. This requires a thorough understanding of the intricacies of Islamic jurisprudence and its practical application in financial settings. Islamic banking principles, which are founded on the values of justice, expediency, balance, and universality, are essential for ensuring fairness in financial transactions (Usanti et al., 2014). Moreover, the principles of partnership and justice are vital in providing benefits to the real sector, aligning with the vision of Islamic banks. This commitment to ethical conduct and social responsibility is crucial for fostering trust and confidence among stakeholders in the Islamic finance industry.

The intricacies of pricing strategies in Islamic banking necessitate a departure from conventional finance paradigms, calling for models that embed fairness, risk-sharing, and ethical considerations (Siska, 2022). Islamic banks determine that their cost of capital is essential for evaluating their financial health and competitiveness (Shubber & Alzafiri, 2008). Unlike conventional banks, Islamic banks operate under the constraints of Sharia law, which prohibits interest-based transactions. A key element of Islamic financial contracts is the concept of profit and loss sharing, which distinguishes Islamic banks from conventional banks, where fixed-interest debt instruments dominate (Dahduli, 2009). The absence of interest requires Islamic banks to develop innovative pricing mechanisms, such as Murabaha (cost-plus financing), Ijara (leasing), Mudaraba (profit-sharing), and Musharaka (Purwanto, 2019). These instruments highlight the dual role of Islamic banks as profit-seeking institutions and as vehicles for achieving the maqāṣid al-sharīʻah (objectives of Shariah), including justice, equity, and the promotion of the public interest (Chapra, 2000; Dusuki & Bouheraoua, 2011).

Challenges in Islamic Pricing

While the normative framework of Islamic economics emphasizes fairness, transparency, and justice, the practical application of pricing in Islamic banking faces several challenges.

- Benchmarking Against Conventional Interest Rates

  A persistent challenge for Islamic financial institutions is the widespread reliance on conventional benchmarks such as LIBOR (London Interbank Offered Rate) or local central bank rates (e.g., BI-Rate in Indonesia). Although Islamic banks prohibit interest-based transactions, their pricing of contracts such as murabaha or ijara often mirrors conventional interest structures (El-Gamal, 2006; Khan, 2010). This practice raises questions about the authenticity and distinctiveness of Islamic finance and creates a paradox between Shariah ideals and operational realities.
- Risk Asymmetry and Information Constraints

  Profit-and-loss sharing (PLS) modes such as mudarabah and musharakah are conceptually aligned with Shariah principles. However, they are subject to issues of moral hazard, adverse selection, and informational asymmetry between financiers and entrepreneurs (Siddiqi, 2006; Iqbal & Llewellyn, 2002). These challenges increase monitoring costs and discourage Islamic banks from fully adopting PLS contracts, pushing them instead toward debt-like modes that are easier to price.

- Regulatory and Standardization Issues

  The absence of unified global standards in Islamic finance further complicates pricing mechanisms. Different Shariah boards and regulatory authorities may issue varying interpretations of compliance, leading to inconsistencies across jurisdictions (Ahmed, 2011). This lack of harmonization hampers the development of universally accepted Islamic pricing benchmarks.
- Market Competitiveness Pressures

  Islamic banks also face the challenge of competing with conventional banks in the same financial markets. In order to remain competitive, Islamic banks often adopt pricing practices that closely track conventional rates, thereby limiting their ability to implement independent Shariah-driven mechanisms (Asutay, 2012; Chapra, 2000).
- Ethical Concerns and Maqāṣid al-Sharīʻah

  A deeper concern lies in whether current Islamic pricing practices adequately reflect the objectives of Shariah (maqāṣid al-sharīʻah), such as justice, welfare, and equitable distribution of wealth. Critics argue that overreliance on debt-like products and interest-based benchmarks diminishes the transformative potential of Islamic finance as envisioned by its pioneers (Dusuki & Bouheraoua, 2011; Mirakhor & Askari, 2010).

Conventional Pricing Models

Conventional financial theory typically employs three approaches to pricing: cost-based, value-based, and competition-based. While efficient in competitive markets, these models do not consider the moral dimensions of economic exchange.

Conventional financial theory generally employs three pricing approaches: cost-based, value-based, and competition-based. Although efficient in competitive markets, these models do not take into account the moral dimensions of economic exchange. These approaches are rooted in neoclassical economic thought, which assumes rational agents seeking to maximize utility or profit within markets characterized by perfect information and perfect competition. However, such approaches often overlook broader ethical concerns such as justice, social welfare, and distributive fairness (Sen, 1987). In contrast, Islamic finance integrates a moral-economic framework derived from Sharia principles, emphasizing not only efficiency but also justice and ethical responsibility.

For example, the Islamic approach to pricing prohibits exploitative practices such as riba (interest), gharar (excessive uncertainty), and ghabn (unjust pricing), which are generally neglected in conventional models (El-Gamal, 2006). Instead, Islamic finance promotes fair pricing by anchoring transactions in real assets and mutual consent (tarāḍī), so that prices reflect both economic value and ethical appropriateness (Chapra, 2000). Therefore, while conventional pricing strategies may be beneficial under certain market conditions, they may fall short in reflecting the holistic objectives of Islamic economic philosophy, particularly the realization of *maqāṣid al-sharīʻah* (objectives of Islamic law), such as justice (*ʻadl*), welfare (*maṣlaḥah*), and the prevention of harm (*ḍarar*).

The Benchmark Controversy in Islamic Banking

Numerous scholars have criticized the reliance on interest-based benchmarks, arguing it compromises the distinctiveness of Islamic finance. Sadr (2015) and El-Gamal (2006) advocate for pricing mechanisms rooted in real sector indicators, risk profiles, and moral objectives.

The Benchmark Controversy in Islamic Banking concerns the use of conventional interest-based benchmarks in pricing Islamic financial products. This is a critical issue due to the prohibition of Riba in Islamic finance, raising concerns about the true Sharia compliance of certain Islamic financial products. While Islamic finance aims to adhere to tangible assets and avoid ambiguous contracts, some practices may not align perfectly with these ideals. Islamic finance forbids involvement in activities deemed unethical or harmful under Sharia law, setting it apart from conventional finance. This alignment with Sharia principles ensures that Islamic financial products contribute to the well-being of society and promote sustainable economic development. For example, Islamic finance explicitly avoids investing in activities that are considered harmful to society, such as those that involve excessively uncertain financial transactions and gambling (Raimi et al., 2024).

In Islamic banking, determining the benchmark rate is a complex issue due to the prohibition of interest. Some argue for the development of alternative benchmarks that align with Sharia principles (Luntajo, 2021). Changes in benchmark rates made for monetary policy reasons can create asset-liability management issues for Islamic banks (Archer & Karim, 2019).

II. METHODOLOGY

Research Method

This study employs a qualitative and conceptual-analytical methodology aimed at developing a normative pricing strategy framework for Islamic banking that aligns with Shariah principles and real economic values. The research explores the dissonance between Islamic normative ethics and contemporary pricing practices by formulating a structured model grounded in Islamic jurisprudence (*fiqh al-mu'āmalāt*), economic justice, and risk-sharing.

Research Design

The research is normative and prescriptive in nature, relying on library-based data and conceptual reasoning. It seeks not only to critique the existing benchmark-based pricing model but also to construct a value-based alternative that reflects the objectives of Islamic law (*maqāṣid al-sharī'ah*), particularly in promoting fairness ('*adl*), transparency (*bayān*), and public interest (*maṣlaḥah*).

Data Collection

The study utilizes secondary data obtained through an extensive literature review, including:

- Classical and contemporary Islamic legal texts, particularly on commercial jurisprudence (fiqh al-mu'āmalāt);
- Academic literature on Islamic banking, risk-sharing, and pricing mechanisms;
- Regulatory documents and operational manuals from Islamic financial institutions;
- Standards and guidelines issued by key Shariah bodies (e.g., DSN-MUI, IFSB, AAOIFI, OJK Syariah).

Data Analysis

Content Analysis: To extract normative constructs from Shariah texts and scholarly discourse relevant to pricing, justice, and risk.
Comparative Analysis: To contrast the current benchmark-based pricing approach with value-based principles derived from Islamic economic philosophy.
Conceptual Synthesis: To integrate Shariah principles, real-sector economic indicators, risk factors, and cost structures into a coherent pricing framework. The model proposes a three-phase structure:

- Input: Shariah norms and economic value orientation;
- Process: Assessment of real risk, cost analysis, and value creation;
- Output: Just, transparent, and maṣlaḥah-oriented pricing decisions.

This methodology enables the formulation of a Shariah-aligned alternative pricing paradigm, intended to support Islamic financial institutions' epistemological independence and ethical integrity.

III. RESULT AND DISCUSSION

The Epistemological Tension

Using interest-based benchmarks reproduces conventional logic within an Islamic structure. It reflects operational mimicry, undermining the Islamic financial system's credibility and differentiation.

The reliance of Islamic banks on interest-based benchmarks (BI rates) reflects an epistemological asymmetry in the formulation of pricing strategies. The Islamic paradigm, founded on principles of justice, prohibition of riba (usury), and asset-backed transactions, is fundamentally at odds with the use of conventional, interest-based financial instruments.

This asymmetry represents a deeper epistemological inconsistency wherein the Islamic sources of knowledge and ethical foundations are misaligned with the operational realities of Islamic financial institutions. Consequently, such practice creates ambiguity in the institutional identity of Islamic banking, as it seemingly adopts the framework of conventional finance, rather than one rooted in Islamic jurisprudence and values.

The implications are not merely technical, but also Shariah-related. Dependence on interest-based benchmarks raises significant concerns about substantive compliance with the maqāṣid al-sharī'ah (the higher objectives of Islamic law), especially in relation to contractual justice, authenticity of Islamic contracts, and the avoidance of riba. Over time, this strategy may erode public trust in the uniqueness and integrity of the Islamic financial system.

Therefore, a reformulation of the pricing paradigm is necessary, one that is rooted in Islamic epistemology and based on real sector indicators, partnership principles, and value structures consistent with Shariah.

Foundations for a Shariah Compliant Pricing Strategy
The Imbalance of Conventional Pricing Strategies in Islamic Banking

The current development of the Islamic banking industry continues to show a strong reliance on interest-based benchmarks as the primary reference for pricing financing products. This presents an epistemological paradox: a financial system claiming to uphold Islamic principles is instead adopting pricing structures rooted in the conventional, interest-bearing framework. This imbalance is not merely technical, but also strikes at the core of Shariah, including issues of justice, the prohibition of exploitation, and the objectives of Islamic law (*maqāṣid al-sharīʿah*). Addressing this issue requires a reformulation of the pricing paradigm based on Islamic foundational values.

First Pillar: Real Risk-Based Pricing

Islam affirms the principle that profit must be accompanied by risk (*al-kharāj bi al-ḍamān*). In this context, Islamic banks should determine profit margins or profit-sharing ratios based on the actual level of risk borne in a transaction. This approach requires:

- A thorough risk assessment, including market risk, default risk, and sectoral risk associated with the client's business;
- Margin adjustment that is proportional to the degree of risk exposure in each project;
- Transparency in explaining to clients why profit rates may vary depending on the conditions of the financed project.

By applying this principle, Islamic banks no longer rely on conventional interest rates, but instead independently assess risk in a just and Shariah-compliant manner, tailored to each contract.

Second Pillar: Value-Added-Based Pricing

Pricing in Islam should ideally reflect the actual contribution of financing to real economic activity. This strategy demands that banks:

- Evaluate the extent to which a financing project generates economic value-added, including job creation, increased production, and empowerment of the real sector;
- Differentiate pricing between speculative projects (which should be avoided) and productive ventures that generate broad-based benefits;
- Integrate economic impact analysis into financing policy decisions.

Under this value-based approach, pricing is not merely determined by the "cost of capital" but by the value of the socio-economic benefits generated. It encourages Islamic banks to actively finance productive sectors that contribute to sustainable development.

Third Pillar: Justice- and Maṣlaḥah-Oriented Pricing

Islam emphasizes justice and social balance in all aspects of life, including financial transactions. Pricing strategies, therefore, should take into account:

- The client's economic capacity: Pricing must not impose an undue burden. This may involve tiered pricing schemes based on client profiles (e.g., SMEs vs. large corporations);
- Equitable access to finance: prices should not become barriers for marginalized groups to access Islamic financial services;
- Public interest (maṣlaḥah): Islamic banks should consider the long-term social impact of pricing strategies, including community welfare, wealth distribution, and sustainable economic development.

This approach positions Islamic banks as agents of social justice, not merely profit-maximizing entities. By incorporating maṣlaḥah, pricing becomes more inclusive and aligned with the higher objectives of Shariah.

Strategic and Institutional Implications

The implementation of value-based pricing in Islamic banking carries several important implications:

- Internal policy reform: Adjustments are needed in risk assessment systems and pricing decisions by financing committees.
- Human capital development: Bank personnel must be equipped with competencies in risk analysis, economic value assessment, and maqāṣid-driven thinking;
- Pricing innovation: Development of new pricing models such as real-sector index-based pricing, contractual fairness mechanisms, or adaptive pricing systems based on client needs;
- Regulatory role: Financial authorities should provide supportive policies and guidelines to prevent Islamic banks from falling into dependency on conventional benchmarks.

Value-based pricing is an attempt to harmonize Islamic financial practices with the normative ideals of Islam. By emphasizing real risk, value creation, and justice-driven outcomes, this strategy offers not only greater Shariah compliance but also supports the broader transformation of Islamic finance toward epistemological independence and social sustainability.

Case Study: Dependence on Conventional Benchmarks

A clear example of pricing imbalance can be observed in murābaḥah financing products offered by several Islamic banks in Indonesia. In practice, the profit margin for murābaḥah is often determined by referencing the BI 7-Day Reverse Repo Rate or conventional deposit interest rates, with an additional fixed margin.

For instance, an Islamic bank may determine the murābaḥah margin using the following formula:
Cost price + (BI Rate + x%) × tenor.
While this formula appears technically efficient, from a Shariah perspective, it raises several concerns:
- There is no thorough risk assessment conducted regarding the project or the customer's financial profile;
- The pricing mechanism fails to reflect the value-added contribution of the financed economic activity;
- It does not consider the client's repayment capacity or the broader social impact of the imposed margin level.

Such a practice indicates a replication of interest-based pricing, even though the contract structure may appear formally Shariah-compliant. Over time, this imitation may undermine the authenticity and ethical identity of the Islamic banking model.

Table. 1 Comparison: Benchmark Pricing vs. Value-Based Pricing

Aspect	Benchmark Pricing (Conventional)	Value-Based Pricing (Islamic)
Pricing Basis	Market interest rate benchmarks	Real risk, value creation, and justice
Pricing Nature	General, uniform, and market-driven	Contextual and project-specific
Risk Treatment	Considered as the cost of capital	Shared based on contribution and risk exposure
Justice Consideration	Does not account for customer purchasing power	Takes into account affordability and public interest (*maṣlaḥah*)
Orientation	Profit maximization and market efficiency	Ethics, social justice, and sustainability
Shariah Compliance	Formalistic (legally valid contract but questionable in substance)	Substantive (alignment of both form and underlying principles)

This comparison highlights the epistemological and operational gap between conventional benchmark-based models and a truly Islamic, value-driven pricing framework. Moving toward the latter is essential for restoring ethical integrity, public trust, and alignment with the *maqāṣid al-sharīʻah* in Islamic finance.

A Conceptual Framework

Pricing strategies in Islamic banking should not be formulated merely by following the interest-based logic of conventional financial markets. Instead, they must be designed through a value-driven approach rooted in Islamic principles and real economic considerations. To that end, this study proposes an alternative pricing strategy framework built upon three core components: input, process, and output.

Input: Integrating Shariah Principles and Real Economic Values

At the foundational level, Islamic pricing strategy must be grounded in two essential pillars:
- Shariah Principles: The prohibition of riba (usury), gharar (excessive uncertainty), and maysir (gambling); the enforcement of justice (ʻadl), balance, and honesty in transactions; and a commitment to maqāṣid al-sharīʻah such as the protection of wealth, promotion of social justice, and realization of public welfare (maṣlaḥah).
- Real Economic Values: Ensuring that transactions are tied to tangible assets or productive activities. This includes assessing the financed sector's economic potential, real contribution to national development, and the actual financial capacity of clients based not on market assumptions, but empirical evaluation.

These two foundations, moral and empirical, differentiate Islamic pricing from profit-centric conventional approaches.

Process: Structured Evaluation of Cost, Risk, and Value Creation

Cost Structure Identification

This includes operational costs, cost of funds, risk-related costs, and service-related expenses. Unlike interest rates, Islamic cost structures must be transparent and directly tied to real economic activity. The primary goal is to avoid exploitation and ensure that pricing reflects the actual burden borne by the bank.

The cost structure within the Shariah framework has several important dimensions:

- Operational Costs
  These include employee salaries, administration, infrastructure, and technology. Operational efficiency becomes a key factor since high administrative expenses may burden the financing price. Islamic banks are required to maintain a balance between business sustainability and the principle of justice for customers (Iqbal & Llewellyn, 2002).
- Cost of Fund
  The cost of funds in Islamic banking differs from conventional interest-based systems as it originates from fund-mobilization schemes such as mudharabah and wadi'ah. The returns provided to fund owners must be aligned with the level of profit generated by the bank. Transparency is strongly emphasized to avoid gharar (uncertainty) in the relationship with depositors (Siddiqi, 2006).
- Risk Costs
  Risk costs cover potential losses from default, market risk, and Shariah-compliance risk. Unlike the interest-based system which transfers the entire risk to the client, the Shariah framework requires risk sharing. Therefore, the calculation of risk costs must be proportional and based on an evaluation of the project's productivity rather than merely the probability of loss (Mirakhor & Askari, 2010).
- Service-Related Expenses
  Additional services such as business consultancy, project monitoring, and the provision of Shariah compliance services are also part of the cost structure. These expenses must not contain elements of exploitation but should instead reflect the real added value delivered by the bank to its customers (Dusuki & Bouheraoua, 2011).

Risk Assessment

The level of risk inherent in the financed business or project must be evaluated. A Shariah-based risk approach distinguishes between speculative and productive risk and emphasizes shared risk principles. The outcome of this assessment determines a fair and proportional margin or profit-sharing ratio (*nisbah*).

In Islamic finance, the evaluation of risk plays a central role in ensuring that pricing structures are both equitable and Shariah-compliant. Unlike conventional finance, which primarily prices credit risk through interest rates, the Islamic framework differentiates between speculative (*gharar*) and productive risk. Speculative risk, which is rooted in uncertainty and ambiguity, is prohibited, while productive risk arising from genuine entrepreneurial or investment activities is permitted and even encouraged (El-Gamal, 2006; Mirakhor & Askari, 2010).

Risk-sharing principles dictate that both the financier and the entrepreneur should proportionally bear the potential losses and gains of a project. This ensures that no single party is unfairly burdened with risk exposure. The fairness of the margin or nisbah in profit-sharing contracts (such as *mudarabah* or *musharakah*) must therefore be grounded in a transparent assessment of the business venture's viability, its sectoral risks, and the broader market environment. Such an approach not only aligns with the *maqāṣid al-sharīʿah* but also strengthens the resilience of Islamic financial institutions by linking profits to real economic productivity (Chapra, 2000; Siddiqi, 2006).

Value Creation Projection

This step involves quantifying the economic value generated by the financed transaction:

- Does the financing create employment opportunities?
- Does it support Shariah-prioritized sectors (e.g., agriculture, SMEs, halal industries)?

Real value-added becomes a basis for margin adjustment, providing incentives for socially beneficial sectors. Prices are not determined speculatively or by market trends, but through rational, accountable, and ethical evaluation.

Beyond risk assessment, Islamic pricing models require a careful projection of the value creation potential embedded in each financing arrangement. The central question is whether the financed activity contributes positively to society and the economy. Thus, value creation is assessed across multiple dimensions:

- Employment Generation: Financing projects that create jobs align with the Islamic objective of promoting socio-economic welfare.
- Support for Priority Sectors: Activities in agriculture, small and medium enterprises (SMEs), and halal industries are particularly emphasized, as they contribute directly to food security, inclusive growth, and ethical consumption (Dusuki & Bouheraoua, 2011).
- Socio-Economic Impact: Financing that results in community development, innovation, or environmental sustainability is considered to provide higher real value-added.

By embedding value creation as a pricing determinant, Islamic finance moves away from speculative mechanisms and instead promotes rational, accountable, and ethical evaluation. This ensures that financing serves as both a driver of profitability for banks and a vehicle for achieving maqāṣid al-sharīʻah, namely justice, equity, and the public good (Asutay, 2012; Ahmed, 2011).

Output: Fair, Transparent, and Maṣlaḥah-Oriented Pricing

The final outcome of this framework is a pricing model that fulfills three core characteristics:

- Just Pricing
  Avoids exploiting the client's financial vulnerability. The margin is proportional to both the risk and the real value of the project. It does not resemble a disguised fixed interest rate under a Shariah-compliant contract.
- Transparent Pricing
  Clients are given a comprehensive understanding of how prices are determined. All price components, including the bank's profit margin, are disclosed openly. This builds trust and loyalty between customers and Islamic banks.
- Maṣlaḥah Oriented Pricing
  Pricing reflects broader social and economic conditions. It avoids burdensome rates that create inequality and promotes financial inclusion and sustainable development of the real sector.

This alternative pricing strategy framework offers not only a model more consistent with Islamic ethical values but also one that is more responsive to contemporary socio-economic challenges. By balancing normative Shariah considerations with practical economic realities, the model paves the way for a fundamental reform in the pricing system of Islamic banks, toward a truly authentic, just, and impactful Islamic financial system.

IV. CONCLUSION

This study is motivated by an epistemological concern regarding pricing strategies in Islamic banking, which remain heavily reliant on interest-based benchmarks. Such practices not only obscure the distinct identity of Shariah-compliant finance but also raise significant sharīʿah compliance issues. In response, this study proposes a value-based pricing strategy founded on three core pillars:

- Real Risk-Based Pricing: Emphasizing that profit is only legitimate when accompanied by risk. Accordingly, margins or profit-sharing ratios should be determined based on the actual level of risk borne by both parties.
- Value-Added-Based Pricing: The price of financial products should reflect their contribution to productive economic activities. This aligns with Islamic principles that encourage asset-backed transactions with real economic benefits.
- Justice- and Maṣlaḥah-Oriented Pricing: Pricing decisions should go beyond financial gain and consider the purchasing power of customers, social equity, and long-term societal impact.

Through case studies and comparison with conventional models, this research finds that benchmark pricing tends to be uniform, decontextualized, and often disregards the objectives of Islamic law (maqāṣid al-sharīʿah). In contrast, the proposed value-based model offers a more just, contextual, and maṣlaḥah-driven approach, consistent with the vision of an Islamic moral economy.

Islamic banks need to transcend interest-based references and adopt pricing strategies grounded in Islamic epistemology and ethics. A shift toward real-sector benchmarks and maqāṣid-driven frameworks can help restore integrity and socio-economic purpose to Islamic finance. Future research should empirically test this framework and examine its practical implications across jurisdictions.

Contribution to the Literature

This study contributes to the growing literature on Islamic banking and finance by offering a normative-practical framework for value-based pricing that aligns with Shariah principles and real-sector economic considerations. While previous studies have largely focused on the legality of Islamic financial contracts or the critique of interest-based benchmarks, this paper advances the discussion by:

- Bridging the normative and operational gap between Islamic jurisprudential ethics and pricing practices in Islamic banking;
- Introducing a three-phase pricing framework (input–process–output) grounded in risk-sharing, value creation, and economic justice;
- Reframing pricing strategy as an instrument of achieving maqāṣid al-sharīʻah, rather than merely a commercial tool;
- Providing a conceptual alternative to benchmark-based pricing that reflects Shariah values such as fairness (ʻadl), transparency (bayān), and public welfare (maṣlaḥah);
- Encouraging institutional reform through a Shariah-aligned pricing model that supports ethical legitimacy, financial inclusion, and sustainable development.

By situating pricing within the broader framework of Islamic moral economy, this study offers a novel perspective and a foundation for further empirical research on Shariah-compliant pricing mechanisms in Islamic financial institutions.

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