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UNDERSTANDING WAKALAH AND KAFALAH: KEY CONCEPTS AND PRACTICAL APPLICATIONS IN ISLAMIC FINANCE

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ABSTRACT

This research aims to provide a comprehensive understanding of the basic concepts and practical applications of wakalah and kafalah in the context of Islamic finance. Through a literature review, this article explores the basic principles, contract structure, and practical implementation of wakalah and kafalah in Islamic financial institutions. This research provides in-depth insight for practitioners, academics and other interested parties in understanding the role and impact of wakalah and kafalah in the Islamic finance industry.
Keywords: *Wakalah, Kafalah, Sharia Contracts, Islamic Finance, Practical Implementation.*

ABSTRAK

Penelitian ini bertujuan untuk memberikan pemahaman yang komprehensif tentang konsep-konsep dasar dan aplikasi praktis dari wakalah dan kafalah dalam konteks keuangan Islam. Melalui tinjauan literatur, artikel ini menggali prinsip-prinsip dasar, struktur kontrak, serta implementasi praktis dari wakalah dan kafalah dalam lembaga keuangan Islam. Penelitian ini memberikan wawasan mendalam bagi praktisi, akademisi, dan pihak berkepentingan lainnya dalam memahami peran serta dampak wakalah dan kafalah dalam industri keuangan syariah.
Kata Kunci: Wakalah, Kafalah, Kontrak Syariah, Keuangan Islam, Implementasi Praktis.

1. INTRODUCTION

A wakalah agreement is an agreement between two parties in which one party (representative) acts on behalf of the other party (muwakil) in carrying out a task or activity. While the kafalah contract is an agreement in which a guarantor (kaafil) guarantees the obligations of another party (makful) to a third party (Cahyani, 2018). Wakalah and kafalah contracts are widely used in Islamic financial products such as investment, financing, and insurance (Harahap &; Sudiarti, 2021). Akad wakalah and kafalah have sharia principles that must be adhered to, such as the principles of justice, honesty, transparency, and responsibility. Akad wakalah and kafalah can also be used in social activities, such as collecting zakat, infak, alms (Yumanita, 2005).

Akad wakalah and kafalah are the two main concepts in Islamic financial institutions. Akad wakalah is an agreement in which a person or legal entity entrusts their financial affairs to another party to be taken care of in return. Meanwhile, a kafalah contract is an agreement in which a third party guarantees the financial obligations of the party who borrows funds. In the wakalah contract, the party acting as a representative must have sufficient competence and integrity and must carry out duties under the interests of the representative. Meanwhile, in the kafalah contract, kaafil must meet certain conditions, such as having sufficient financial capacity and understanding the risks to be borne.

Islamic financial institutions have strict procedures to determine feasibility and risk before approving wakalah or kafalah contracts. This includes examining the background and reputation of the parties involved in the transaction, evaluating investment risks or financial liabilities, and determining a fair level of profit or reward. Although wakalah and kafalah contracts are used in Islamic financial institutions, these concepts can also be applied to various other fields. An example is in the sharia insurance industry, where wakalah contracts are used to manage customer funds and kafalah contracts are used to provide guarantees for claims submitted (Andri Rivai, 2020).

The purpose of the paper on Akad wakalah and kafalah in Islamic financial institutions is to provide a better understanding of these two important concepts in the context of Islamic finance. This article also aims to explain how these two concepts are applied in the practice of Islamic financial institutions and how strict procedures are used to determine feasibility and risk before approving a wakalah or kafalah contract. With a better

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understanding of this concept, readers can gain a broader knowledge of Islamic finance and how Islamic principles are applied in the financial industry. It can assist readers in making smarter financial decisions and understanding how Islamic financial institutions operate. This article can also help promote a better understanding of Islamic finance and how it can provide alternatives for those seeking financial options that are based on Islamic principles.

However, wakalah and kafalah contracts can complicate financial transactions and make fees higher, as Islamic financial institutions must conduct rigorous risk analysis before approving such contracts. The concept of wakalah and kafalah contracts can provide lower profits compared to conventional financial products. This is because Islamic financial institutions must comply with sharia principles, such as the prohibition of usury, which can limit investment opportunities and profitability. In addition, the concept of wakalah and kafalah contracts can raise moral hazard problems, namely when the party receiving the guarantee feels no longer necessary to try to fulfil its obligations because it feels guaranteed by a third party (Rosly, 2005).

2. RESEARCH METHOD

This article uses an in-depth literature review method to investigate the concept and practical application of wakalah and kafalah in Islamic finance. The literature review approach allows researchers to collect and evaluate various relevant literature sources, including scientific journals, books, research reports, and official documents from Islamic financial institutions. This approach allows researchers to gain a comprehensive understanding of the subject under study as well as to identify trends, comparisons, and a deep conceptual understanding of wakalah and kafalah.

The literature review is a powerful method in scientific research because it allows researchers to synthesize and interpret existing knowledge in relevant literature. With this approach, researchers can identify weaknesses and gaps in previous research, as well as formulate relevant and meaningful research questions.

This article also involved a process of careful analysis of the collected literature, with a focus on identifying key concepts, frameworks and important findings related to wakalah and kafalah in the context of Islamic finance. Thus, this research aims to provide readers with in-depth insight into the role and practical implications of wakalah and kafalah in the Islamic finance industry.

3. RESULT AND DISCUSSION

3.1 Akad Wakalah

Linguistically the word 'wakalah' or 'al-wakalah' in Arabic means submission, delegation, and giving of mandates. Meanwhile, the term wakalah has several meanings, namely: protection (*al-hifzh),* sufficiency (*al-kifayah*), dependents (*al-dhamah),* or delegation (*al-tafwidh),* which also means giving or representing power (Putri et al., 2023). Wakalah is the granting of power (muwakkil) to the person authorized (representative) if the grant of power can be delegated when the authorized person (representative) does not bear the risk of being represented except in the case of negligence or default. Wakalah is one of the contracts used in financial transactions by Islamic financial services transactions (Ramadanti, 2022).

Akad wakalah in Islam is the delegation of power by one person as the first party to another person as the second party in matters determined. In the context of Islamic finance, wakalah contracts are used to regulate the responsibilities and rights of each party involved in transactions (Rizal, 2022). Wakalah agreements can apply to various kinds of transactions, such as insurance, purchases, financing, sales, and so on.

Islam proclaims wakalah because people need it. Not everyone has the ability or opportunity to handle all the work on their own. Sometimes one has to delegate work to someone else to represent it. The legal basis for the implementation of wakalah in muamalah comes from the Qur'an, al-Sunnah and al-Ijma. The postulates of the Qur'an are found in the word of Allah Almighty in the Qur'an surah al-Kahf: 19.

وَكَذٰلِكَ بَعَثْنٰهُمْ لِيَتَسَاۤءَلُوْا بَيْنَهُمْۗ قَالَ قَاۤىِٕلٌ مِّنْهُمْ كَمْ لَبِثْتُمْۗ قَالُوْا لَبِثْنَا يَوْمًا اَوْ بَعْضَ يَوْمٍۗ قَالُوْا رَبُّكُمْ اَعْلَمُ بِمَا لَبِثْتُمْۗ فَابْعَثُوْٓا اَحَدَكُمْ بِوَرِقِكُمْ هٰذِهٖٓ اِلَى الْمَدِيْنَةِ
فَلْيَنْظُرْ اَيُّهَآ اَزْكٰى طَعَامًا فَلْيَأْتِكُمْ بِرِزْقٍ مِّنْهُ وَلْيَتَلَطَّفْ وَلَا يُشْعِرَنَّ بِكُمْ اَحَدًا

Translation:

And so we awakened them so that among them they might ask each other. One of them said. "How long have you been, how long have you been here. Then send one of you to go to the city with this silver money, and let him see which food is better, and let him be gentle, and never tell anyone your thing.

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From the Qur'anic verse above, it is explained that Allah Almighty establishes wakalah because humans will need it. Since not everyone can take care of all his affairs, he still has to give power (at-tafwidh) to others to act as his representative.

Based on Fatwa DSN-MUI No.10 / DSN-MUI / IV / 2000 concerning wakalah Muslims ijma' on the permissibility of wakalah, even view it as sunnah, because it is a type of ta'awun (help) based on goodness and taqwa, which is supported by the Qur'an and hadith. In its implementation, it can take ujrah on a wakalah contract called a wakalah bil ujrah contract and a financing product called murabahah bil wakalah in the implementation process, shari'ah banks in Indonesia can apply it by referring to the rules and principles of shari'ah (Harahap &; Sudiarti, 2021).

3.2 Pillars and Terms of Akad Wakalah

In implementing wakalah must meet the following requirements and get along well:

1. Requirements and get along well with wakalah
   a. The one who empowers (muwakkil)
   b. Authorized person (representative)
   c. Matters/things represented (at-taukil)
   d. Statement of agreement (ijab kabul)
2. There are two nullifications on legal grounds
   a. If the grant of rights is hindered permanently and the authorizer is hindered continuously until death, then the grant of power becomes void, as in the case of the lender's release/resignation, unless there is an agreement to the contrary.
   b. Disputes between the power of attorney and the power of attorney, if there is a difference of opinion between the power of attorney and the power of attorney, especially the loss of the object given by the power of attorney, then the words of the power of attorney must be witnessed by a witness.
3. And the end of wakalah is:
   a. Death of one of the shahibul akad (intelligent persons) or legal defects.
   b. Both parties want a halt to work/activities.
   c. Cancel a contract by an authorizer known to the power of attorney.
   d. Loss of ownership rights over goods for the authorizer when the authorized person resigns with the knowledge of the authorizer (Paujiah et al., 2022).

3.3 Types of Wakalah Contracts

In fiqh, based on its scope wakalah is divided into four types, namely:

1. Al-wakalah al-ammah
   Al-wakalah al-ammah is a general process of granting permission, without any stipulation. Like buying any car we find.
2. Al-wakalah al-khosshos
   Al-wakalaah al-khosshos is the process of granting authority to replace a particular position. And the specifics are clear, such as being a lawyer to handle a specific case.
3. Al-wakalah al-muqayyadah
   Al-wakalah al-muqayyadah is a contract whose authority and actions of the representative are limited by certain conditions. Like selling a car for 110 million in cash and 160 million in credit.
4. Al-wakalah al-mutlaqah
   Al-wakalah al-mutlaqah is a wakalah contract whose authority and representation are not limited by certain conditions or rules, such as the sale of this vehicle without determining the desired price (Paujiah et al., 2022).

3.4 Akad Kafalah

Kafalah linguistically means to combine (*al-dammanu*), guarantees (*al-dammam*), and dependents (*za'amah*) Whereas, in terms, kafalah is combining the responsibility of the guarantor with the responsibility guaranteed in terms of the right or debt itself. Thus, the right or debt is the responsibility of the guarantor. In another sense, kafalah is a guarantee given by the insurer (kafil) to a third party to fulfil the obligations of the second party (makful) (Shaykhul, 2019).

The scholars can be divided into two groups in determining the meaning of kafalah linguistically: first, the hanafiyyah and hanabilah scholars give the meaning of kafalah as al-dhamm (combining the obligations owed so that they become guarantor debts). Second, Shafiyyah scholars argue that kafalah has the meaning of al-iltizam (obliging or obliging oneself on something that is not his obligation).

As for the terminology, the opinions of scholars can be categorized into two opinions, namely: According to Hanafiyyah scholars, kafalah is the amalgamation of responsibilities regarding billing or prosecution (rights). So the Hanafiyyah scholars used the word kafalah and divided it into two, namely kafalah bi al-mal and kafalah bi al wajh / nafs. Meanwhile, according to jumhur ulama, kafalah is a contract that establishes rights that remain on the dependents (burdens) of others or present an object that is charged or presents a body/person who has the right to present it (Nurjaman &; Witro, 2021).

In the Islamic context, debt security is called Kafalah, meaning that a person (who is reasonable) can act by promising to exercise a right to be exercised by another person or by promising to assert that right before a court. The debt guarantee agreement covers Kafil, Ashiil, Makfullahu and Makfulbihi. Kafiil is a person who is obliged to underwrite, while Ashiil is a person who has debts and needs guarantors. Makfullahu is a person who gives debts, while Makfulbihi is a person who is used as collateral or dependents, both in the form of material dependents and individual dependents (Cahyani, 2018).

Islamic law allows the kafalah contract to be performed as shari'un man qablana (sharia before us) in the Qur'anic passage surah Yusuf: 72

قَالُوا نَفْقِدُ صُوَاعَ الْمَلِكِ وَلِمَنْ جَاءَ بِهِ حِمْلُ بَعِيرٍ وَأَنَا بِهِ زَعِيمٌ

Translation:
"The chanters said: 'We have lost the king's cup, and whoever can return it will get food (as heavy as) the camel's burden, and I guarantee against it".

As for according to ijma' Muslims agree that the kafalah contract can be done because it is needed by humans to help remove the burden of the debtor. In addition, DSN / MUI stipulated Fatwa Number 11 of 2000 concerning Kafalah. So the wisdom of the enactment of the kafalah contract is to bring an attitude of help, security, comfort and certainty in transactions. (Nurjaman &; Witro, 2021).

The National Sharia Council also issued Fatwa No.74/DSN-MUI/I/2009 on Sharia Guarantee which defines that Sharia Guarantee is a guarantee between parties based on Sharia principles. Based on the fatwa, it further emphasizes that the kafalah carried out by Islamic financial companies in their service activities is kafalah bil ujrah. Facilities that can be provided in the application of the kafalah principle are bank guarantee facilities and *letters of credit facilities (*credit cards). The function of the kafalah is to provide bank guarantees so that stakeholders can manage their affairs more safely and peacefully. safe, creating certainty in doing business/transacting, because with this guarantee, the bank will bear all risks/obligations of customers, if customers do not carry out their obligations properly (Indah, 2020).

3.5 Pillars and Conditions of Akad Kafalah

The pillars of kafalah consist of 5, namely: sighat kafalah (ijab qabul), makful bih (object of dependent), kafil (guarantor), makful'anhu (insured), makful lahu (beneficiary of dependents). As required in all sharia transactions, each pillar has the following details:

1. Sighat kafalah
   Sighat kafalah can be expressed as a statement that indicates the ability to bear something, the ability to carry out one's obligations. Such as "I will be your guardian" "I will be the guarantor of your obligations to someone" or other similar expressions.
2. Makful Bihi
   The principal coverage must be binding on the insured and cannot be cancelled without sharia reasons. In addition, the goods must be the full responsibility of the insured. For example, guaranteeing a price to the party who trades the goods before they are handed over, incurring a debt to someone. In addition, the nominal purpose of the insured must be clear, unclear insurance (majhul) is not allowed.
3. Kafil
   Fiqh scholars want kafil to be empathetic, meaning accustomed to doing good for the benefit of others. In addition, he is also a puberty and intelligent figure. Akad Kafalah cannot be performed by a child, a safih, or a person who is prevented from making a transaction. These kafils are called dhamin (guarantor), za'im (who is in charge), hammil (who carries the burden), and qobil (receiver).
4. Makful'Anhu

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Makful'Anhu is also called assil (debtor) in some books. The main condition that must be attached to the insured (makful'anhu) is the ability to accept the object of coverage, both his own and others acting on his behalf. In addition, makful'anhu must be known to the kafil and must not be intelligent, puberty, present, or willing for the kafalah. Therefore it is permissible to shelter children, lunatics, and absentees.

5. Makful Lahu
   Ulama want makful lahu to be recognized by the kafil to ensure the coverage that is his burden and easy to fulfil. In addition, he is also required to attend the contract ceremony. He is a puberty and intelligent person, cannot be a lunatic or an unintelligent child. Lafadz required lafadz which means to guarantee, does not depend on something that means temporary (Moh. Asra, 2020).

3.6 Types of Akad Kafalah

Referring to Surah Yusuf verse 78, there are 2 kinds of kafalah, namely:

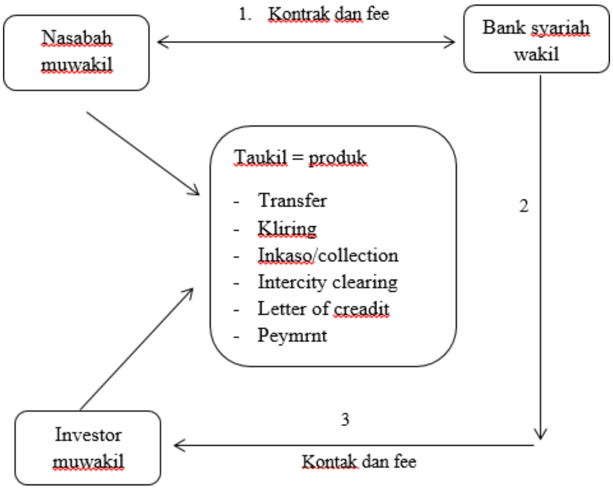
1. al-Kafalah an-nafs (guarantee of the soul) is the guarantee of the insurer against the guaranteed with a commitment to perform his obligation to bring in the guaranteed person in time. This type of kafalah requires the guarantor to bring the guarantee to the person who is given the guarantee (makful la). Guarantees (kafalah) are not permissible on matters other than humanitarian matters, or human rights, nor on the rights of Allah as they have been inflicted (punishment) such as accusing them of adultery or other acts, consuming khamr etc.
2. Kafalah with wealth (Kafalah bi al-mal) is a dependency that must be fulfilled by dlamin or kaafil by paying property. In this case, Kafalah bi al-mal is divided into 2 parts:
   a. Kafalah bi al-dayn is the obligation to pay the debts of others. The guarantee of the delivery of goods (Kafalah al-tasliim) is a guarantee of property in the hands of others so that it can be handed over to the rightful party, such as the return of ghhasabed goods and guaranteeing the purchased goods can be delivered to the buyer.
   b. Kafalah bi al-'aib is a guarantee for the goods sold if deficiencies are found, either because the goods are old or there are other obstacles, or because the goods sold are goods that can be estimated for durability so that the seller guarantees their usefulness with certain guarantees. (Jannah, 2022).

3.7 Application of Akad Wakalah and Kafalah

The application of wakalah to Islamic financial institutions is in the form of services where Islamic banks provide wakalah services as representatives of customers, namely the authorizer (muwakkil) to do something (taukil). In this case, the bank will receive wages or administrative fees for its services. For example, a bank may act as an intermediary or representative in the payment of Electricity or telephone bills to the Electricity or telephone Company. In addition, wakalah application to banks also occurs if the customer authorizes the bank to represent himself with certain service tasks such as L/C letter of credit bookkeeping, debt collection, and remittances (Paujiah et al., 2022).

In the al-wakalah scheme, it will be clearer to know the position of Islamic banks and customers who use Islamic bank services. Islamic banks (representatives) are authorized by customers (muwakil) to perform duties (Taukil) on behalf of the power of attorney. The following is the application scheme for wakalah contracts at Islamic financial institutions:

Figure 1. Akad Wakalah Scheme at LKS



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Information:

a. Customers and investors contract with Islamic banks to perform a job. Then the Islamic bank will do the work requested by customers and investors.
b. Islamic banks get a fee for the work they have done.
c. Some services that can be done by wakalah contracts, namely transfer, clearing, *intercity*, *letter of credit*, *clearing*, *collection*, and *payment* (Cahyani, 2018).

Some witnesses who use wakalah contracts at Islamic Banks include:

1. Transfer Services
   Transfer services are services that will be performed by banks to help move funds belonging to customers to the intended address at the same bank or at other banks. In this implementation, there are costs, where these costs are charged back to the customer who ordered the transfer. The process of transferring money using the concept of a wakalah contract begins with a request from the customer as a Muwakkil to the bank as a representative to make an order or request to transfer a sum of money to someone else's account. The bank will debit the customer's account (if the transfer is from the customer's account to the destination account) and finally, the bank will credit the amount of funds to the destination account according to the customer's request.(Paujiah et al., 2022).
   Examples of wakalah contracts in money transfers, namely:
   a. *Postal/Western Union Money Order*
      In this case, Muwakkil gave the cash to Al-Wakil through postal money order transfers or Western Union, and then Al-Wakil distributed the cash to selected recipients.
   b. Transfer money through a bank
      When transferring money through a bank, Muwakkil hands over cash or authorizes the bank as a representative to debit the account. Furthermore, the bank does not immediately give cash to the recipient. Instead, the bank sends its money by crediting the recipient's account.
   c. Transfer via ATM
      Another way to transfer money is by delegation to send money indirectly from Muwakkil to the bank as a Representative. In this strategy, Muwakkil instructed the bank to debit its savings account and then requested that the deduction amount be added to the intended customer's account. In this case, customers can make their transfers via ATM.
2. Collection (Inkaso)
   Bank service activities to carry out a mandate from a 3rd party in the form of collecting a certain amount of money from a person or entity in another city that has been appointed by the trustee. Banks are allowed to collect and receive bill payments for the benefit of customers (Paujiah et al., 2022).
3. Storage
   The delegation agreement for the purchase of goods, for example, the bank represents to customers (wakalah) to buy goods, using a wakalah contract and a murabahah contract can be done in principle if the goods that have been purchased through the wakalah have become the property of the bank (Paujiah et al., 2022).
4. L/C (letter of credit) services
   Letter of credit service is a bank service forwarding importer orders to goods providers in other countries. *Letters of credit* utilize the services of banks in importing countries and in exporting countries. *Letter of credit*. A wakalah contract also guarantees the importer that the goods ordered will be paid if the delivery is by the sale and purchase agreement that has been made between the importer and exporter. The bank will charge a fee for the assistance services it performs at the request of the importer. L/C transactions are useful to help expedite people's import and export transactions. because the bank guarantees orderly payments according to the sale and purchase contract (Paujiah et al., 2022).
   a. Sharia Import Letter of Credit
      The agreement for this transaction uses the contract wakalah bil ujrah. Having a definition of the customer gives power of attorney to the bank in exchange for giving ujrah. Akad Wakalah Bil Ujrah is used in contracts for *Letter of Credit Import transactions*. This is under the Fatwa of the National Sharia Council Number: 34/DSN MUI/IX/2002. (Scientific et al., 2020).
      1) Akad Wakalah bil Ujrah
         a) The importer must have money in the bank with enough nominal to cover the cost of import payments.
         b) Wakalah bil Ujrah agreement is carried out between the bank and the importer for the management of import transaction letters.

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c) The amount of ujrah must be determined in advance and given in the nominal form, not a percentage.

2) Akad Wakalah bil Ujrah and Mudharabah
   a) To handle letters and payments, the customer enters into a wakalah bil ujrah contract with the bank.
   b) Banks and importers enter into a contract called Mudharabah, whereby the bank acts as shahibul mal and transfers capital to the importer at the import price.

b. Sharia Export Letter of Credit

This transaction agreement uses a paper contract. It has a definition that the bank issuing the affidavit will pay the exporter to facilitate export trade. Wakalah contracts are used in contracts for transactions using Sharia Export Letters of Credit. This is under the Fatwa of the National Sharia Council Number: 35/DSN-MUI/IX/2002. This wakalah agreement has a function where the bank will pay the exporter with a certificate to facilitate export trade governance. However, there are several modifications in this contract according to the situation that occurs (Scientific et al., 2020).

1) Akad Wakalah bil Ujrah
   a) The bank takes care of the export documents.
   b) After charging the issuing bank L/C and deducting the ujrah, the bank pays the exporter.
   c) The amount of ujrah should be decided at the beginning and expressed in nominal form, not percentage.

2) Akad Wakalah bil Ujrah and Mudharabah
   a) The bank provides the exporter with all the money necessary for the manufacture of export goods ordered by the importer.
   b) The bank takes care of the export documents. The bank collects the L/C issuing bank.
   c) L/C issuing banks can pay either at sight or at usance.
   d) Payment of ujrah, reimbursement of mudharabah, and profit-sharing payment can all be made with money from the issuing bank. The amount of ujrah should be decided in advance and expressed in nominal form, not a percentage.

5. Clearing

   Is the exchange of instruments or electronic financial data (DKE) between clearing participants, both in the name of the participant and on behalf of the participant's customer whose calculation is completed at a certain time. In clearing transactions, among others: checks, bilyet giro, and other securities (Paujiah et al., 2022).

4. Akad Kafalah in Islamic Financial Institutions

In the financial system, kafalah is widely applied in financial institutions, especially in Islamic banks. Where the bank acts as a guarantor (kafil) and the customer acts as a guarantor (makful alaih). According to the view of Bank Muamalat Indonesia (BMI), there are several kafalah concepts applied in Islamic banks, including: Kafalah bil-nafs, which is a contract given as collateral for yourself. Kafalah bil-munjazah, which is a guarantee that is not limited to the period and also for certain interests and purposes. (Andri Rivai, 2020)

The types of kafalah given by Islamic banks:

1. Kafalah bil-nafs

   This type of Kafalah is a contract that provides guarantees for individuals or individuals. In banking practice, this form of contract is described by the presence of customers who receive payments with a guarantee of good reputation and character from an individual or public figure. Although the bank does not directly hold the goods, it is expected that the figure can arrange payments when customers experience difficulties.

2. Kafalah bil-mal

   Kafalah bil-mal is a guarantee of payment of goods or debts (in the form of money). This agreement represents the widest scope for banks to provide guarantees to customers in exchange for certain services.

3. Kafalah bil-taslim

   Kafalah bil-taslim is a type of kafalah contract that is usually done to secure rented goods at the end of the rental period. This type of guarantee can be used by banks for the benefit of customers in the form of cooperation with rental companies. Payment guarantees to the bank itself can be in the form of deposits, or savings and banks can also charge fees to customers.

4. Kafalah al-munjazah

   This agreement is a guarantee, not limited in time and directed at certain goals and interests. An example of this contract is the provision of guarantees in the form of performance guarantees.

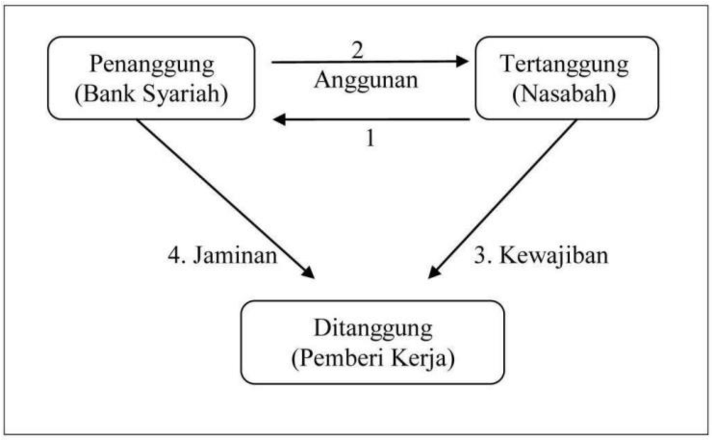
5. Kafalah al-muallaqah
   This type of kafalah is a simplification of kafalah al-munjazah, both carried out by banks and insurance companies. The only difference lies in the time limit given to the contract of kafalah al-muallaqah

In general, the application of kafalah contracts in the Islamic financial institution system is explained as follows:

1. The Bank as a financial institution guarantees the insured (customer) by providing a guarantee (bank guarantee) to the insured (third party or project owner) if the customer does not keep his promise in the future.
2. The customer (insured) has an obligation to the insured (third party or project owner) to perform work under the terms of the employment contract agreed between the insured/person who performs the work and the insured/employer (Indah, 2020).

In a kafalah contract, a third party guarantees the second party for the debt owed by the first party. The following is the application scheme for kafalah contracts at Islamic financial institutions:

Figure 2. Wakalah contract scheme



Information:

a. The customer applies for a guarantee to the Islamic bank for the work done, and the Islamic bank provides a guarantee to the employer for the work.
b. Sharia Bank asks for a guarantee from the insured/customer in exchange for the guarantee it provides.
c. The customer should complete the task under the agreement between the customer and the employer.
d. Sharia banks will bear losses if customers fail to complete tasks by the contract (Cahyani, 2018).

Islamic banks use kafalah contracts for some of their products such as 1) Bank guarantee, a bank guarantee given for a certain time against the subject of guarantee with clear specifications, quantities and values. (2) Sharia Insurance. (3) Healthy Indonesia Card.

5. CONCLUSION

From this research, it can be concluded that a deep understanding of the concepts of wakalah and kafalah is very important in the context of Islamic finance. Wakalah as a representation of trust and kafalah as a form of collateral have a significant role in the sharia financial structure. Through a literature review approach, we have identified key concepts, contract structures, and practical applications of wakalah and kafalah in Islamic financial institutions. This research provides a better understanding of how wakalah and kafalah are implemented in Islamic financial practices and their impact on the stability and growth of the industry.

Suggestions for Further Research

For future research, we recommend continuing the exploration of more specific and in-depth concepts in wakalah and kafalah. Further research could include a comparative analysis between various wakalah and kafalah implementation practices in various countries or Islamic financial institutions. In addition, research can focus on exploring the application of wakalah and kafalah in innovative Sharia financial products, such as sukuk or Sharia insurance products. Furthermore, interdisciplinary research that integrates Islamic finance with other fields such as behavioral economics or financial technology can provide a more holistic and contemporary view of wakalah and kafalah in the context of Islamic finance.

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