

Fatwa as Quasi-Regulation: The Role of DSN-MUI in Governing Hybrid Contracts in Indonesia's Islamic Finance Industry

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Abstract: This article examines how DSN-MUI fatwas operate as a form of quasi-regulation in the governance of hybrid contracts within Indonesia's Islamic finance industry. Hybrid contracts matter because modern products can rarely be built on a single contract, often binding sale, agency, lease, partnership, pledge, and service into one structure. The more intricate the structure, the greater the need for governance that keeps innovation within sharia boundaries. Using a qualitative socio-legal approach with content analysis of DSN-MUI fatwas, OJK regulations, the MUI fatwa guidelines, international sharia governance standards, and academic literature, the study finds that fatwas work through four mechanisms: standardizing contract structures, granting sharia legitimacy to products, mitigating sharia risk, and entering institutional governance through the Sharia Supervisory Board, product review, SOPs, and sharia audit. The article argues that although fatwas are not identical to state law, they hold real regulatory authority because regulators reference them, institutions rely on them, and supervisors treat them as a basis for oversight. Its main contribution is a Fatwa-Based Governance Framework for Hybrid Contracts spanning normative, regulatory, operational, and substantive dimensions.

Keywords: DSN-MUI Fatwa; Quasi-Regulation; Hybrid Contracts; Sharia Governance; Islamic Finance.

Introduction

The development of the Islamic finance industry today calls for governance that does not merely preserve normative compliance, but is also able to steer product innovation amid an increasingly complex financial environment. Looking at the trajectory of the global Islamic finance industry, it is clear that Islamic finance has moved a long way. It is no longer simply an alternative practice living within certain communities, but has become an important part of the international financial system. The Islamic Financial Services Board recorded that the total assets of the global Islamic financial services industry crossed USD 3.88 trillion in 2024, a rise of 14.9 percent over the previous year (IFSB, 2025). This figure points to one important thing. The main issue for the Islamic finance industry today no longer stops at the expansion of assets, but also concerns the quality of regulation, stability, supervision, governance, and a sharia compliance capable of answering the dynamics of modern products (IFSB, 2024; IFSB, 2025).

Within this global context, sharia governance has become one of the central issues in the development of Islamic finance. By sharia governance is meant the system of institutions, standards, procedures, and supervisory mechanisms that ensure the products and activities of Islamic financial institutions remain in line with sharia principles (IFSB, 2009; Grassa, 2013; Ginena & Hamid, 2015). Unlike conventional financial institutions, which are mainly governed through prudential regulation, Islamic financial institutions carry a twofold demand. On one side they must meet the state's financial regulation, and on the other they must ensure conformity with sharia norms. For that reason, Islamic financial governance always stands at the meeting point of state law, industry standards, religious authority, market interests, and the need for consumer protection (Hasan, 2011; Muneeza & Hassan, 2014; Hidayah, Lowe, & Woods, 2019).

At the international level, institutions such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) play a large role in building the standards of the Islamic finance industry. AAOIFI handles the formulation of standards for accounting, auditing, governance, ethics, and sharia. IFSB, meanwhile, focuses on strengthening the stability and prudential standards of the Islamic financial services industry (AAOIFI, 2024; IFSB, 2024). The presence of these two institutions confirms that Islamic finance needs a regulatory structure that rests not only on *fiqh mu'āmalah*, but also on institutional governance, risk management, product supervision, and integration with the modern regulatory system. Within a framework of this kind, fatwa, sharia standards, and state regulation frequently interact to form the architecture of sharia compliance.

Indonesia has a distinctive model of sharia governance. Its distinctiveness lies in placing the National Sharia Board of the Indonesian Ulama Council (DSN-MUI) as the main fatwa authority in the field of Islamic economics and finance. DSN-MUI was established to respond to the need for developing Islamic financial institutions, with the task of issuing fatwas in the field of Islamic economics and at the same time overseeing their implementation through Sharia Supervisory Boards (DSN-MUI, 2024). Its membership, which brings together experts in fiqh, economists, practitioners of Islamic financial institutions, and representatives of the regulator, shows that this body sits at the crossroads of religious authority, industry, and the state. As a consequence, DSN-MUI fatwas

cannot be read merely as religious legal opinions. They are also normative instruments that help determine product design, supervision, and the practice of the Islamic finance industry in Indonesia.

The position of DSN-MUI grows even more important because its fatwas are used as a reference in both the regulation and the practice of Islamic finance. The Financial Services Authority even provides a dedicated DSN-MUI Fatwa channel within its sharia regulation section. This signals that DSN-MUI fatwas indeed hold a place in the national legal and supervisory ecosystem of Islamic finance (OJK, 2025a). In practice, an Islamic financial product in Indonesia is not enough merely to follow business logic and prudential regulation. The product must also refer to DSN-MUI fatwas as the basis of sharia compliance. From here a distinctive configuration of governance emerges. The fatwa is not entirely identical to the state's positive law, yet it still carries regulatory force because it is adopted, referenced, and internalized within regulation, supervision, and institutional practice (Imaniyati, 2016; Syahputra, 2020; Renie, 2021; Suhendar, 2023; Nasrudin, 2025).

A condition of this kind is interesting to read through the concept of quasi-regulation. In the theory of regulation, governance does not always appear as a formal and coercive command of the state. Regulation can also work through standards, guidelines, professional norms, self-regulation, co-regulation, and various mechanisms of non-state authority that exert practical influence over the behavior of institutions (Black, 2001; Scott, 2004; Baldwin, Cave, & Lodge, 2012; Levi-Faur, 2011). Quasi-regulation, then, can be understood as a form of governance that does not derive entirely from state law, but still functions in a regulatory way because it is accepted, referenced, and treated as a standard by the actors in a sector. In the context of Indonesian Islamic finance, DSN-MUI fatwas occupy precisely that position. They are not legislation in the formal sense, yet they form the standard of sharia compliance followed by Islamic financial institutions, used by Sharia Supervisory Boards, and referenced in regulation and industry policy.

The quasi-regulatory function of fatwa feels even more significant when it comes to the governance of hybrid contracts. Hybrid contracts, called *al-'uqūd al-murakkabah* in the contemporary fiqh literature, are transaction structures that string together two or more contracts within one product sequence. In the world of Islamic finance, hybrid contracts have become a necessity because many modern products simply cannot be built on a single contract alone. Take products such as *murābahah bil-wakālah*, *ijārah muntahiyah bi al-tamlīk*, *mushārahah mutanāqishah*, *wakālah bil-ujrah*, *rahn*, sukuk, Islamic insurance, and even digital financial products. All of them frequently involve combinations of interrelated contracts (al-'Imrānī, 2006; al-Miṣrī, 2001; Hartanto & Sup, 2022; Pitriani et al., 2024). Hybrid contracts do open space for product innovation. At the same time, however, they also widen the gap for sharia risk when the relationship among contracts, the sequence of contracts, the object of the transaction, the sharing of risk, and the legal consequences are not regulated clearly.

In *fiqh mu'āmalah*, combining contracts is not an unbounded freedom. The permissibility of hybrid contracts must still be controlled by basic principles, such as the prohibition of *ribā*, *gharar*, *maysir*, *jahālah*, *zulm*, corrupting conditions, and *hīlah* that turns a sharia contract into a roundabout way of obtaining forbidden gain (al-Zuhaylī, 2004; al-'Imrānī, 2006; al-Miṣrī, 2001). It is for this reason that hybrid contracts deserve to be treated as an important object of governance. They demand a standard that can sort out which contractual innovation is valid and which legal engineering is problematic. In Indonesia, such standards are largely formed through DSN-MUI fatwas. It is the fatwa that sets the contracts, the limits, the conditions, the objects, the prohibitions, and the parameters of implementation that then become the industry's footing in designing hybrid products.

Earlier studies on DSN-MUI and hybrid contracts can in fact be grouped into several tendencies. First, some studies highlight the position of DSN-MUI fatwas within the legal and regulatory system of Indonesian Islamic economics. Imaniyati (2016) shows that DSN-MUI fatwas hold an important position in the development of Islamic economic law, even though they are not formally identical to the state's positive law. Syahputra (2020) stresses that DSN-MUI fatwas in Islamic banking do not become operational on their own before they are converted or adopted into Bank Indonesia or OJK regulation. Renie (2021) views the fatwa as an important instrument for filling legal gaps in the development of Indonesian Islamic economics, while Suhendar (2023) reads it through the lens of legal politics. These studies are valuable because they explain the position of fatwa within the national legal system. They have not, however, specifically developed the concept of fatwa as quasi-regulation in the governance of hybrid products.

Second, there are studies that discuss the relationship among DSN-MUI, the regulator, and sharia supervisory bodies. A number of studies show that sharia compliance in the Indonesian finance industry does not depend on fatwa alone, but also on the institutional relationship among DSN-MUI, OJK, Sharia Supervisory Boards, and Islamic financial institutions (Hasan, 2011; Muneeza & Hassan, 2014; Hidayah et al., 2019; Zuhdi, 2025). A study of legal pluralism in Indonesian Islamic finance supervision even reveals a functional relationship as well as a potential tension between religious authority and state authority in maintaining sharia compliance (Zuhdi, 2025). These studies strengthen the understanding that Indonesian Islamic financial governance is plural and layered. Even so, the discussion of how fatwa works as an instrument for regulating hybrid contract products is still rarely developed.

Third, there are studies that focus on the concept and typology of hybrid contracts in DSN-MUI fatwas. Hartanto and Sup (2022) show that several Islamic financial products in DSN-MUI fatwas use combined contract

structures. Pitriani et al. (2024) classify the types and models of hybrid contracts in DSN-MUI fatwas and reveal the variety of patterns in combining contracts. Ulum (2024) even shows that DSN-MUI fatwas in the field of the digital economy make heavy use of hybrid structures, so that hybrid contracts become an important feature in the fatwa response to the development of digital transactions. These studies make a large contribution to mapping hybrid contracts. Unfortunately, most of them still see fatwa as a mere normative basis for contracts, rather than as a governance mechanism that standardizes, legitimizes, and controls product risk.

Fourth, studies on the implementation of hybrid contracts in Islamic financial institutions have also begun to grow. Annurria, Dahlifah, and Mais (2022) examine the practice of hybrid contracts in Islamic accounting at PT Bank Syariah Indonesia Tbk. and find that the application of hybrid contracts is aligned with regulation, sharia principles, accounting standards, and the supervision of the Sharia Supervisory Board. Saibil (2024) discusses the challenges as well as the opportunities of developing hybrid contracts in Islamic banking from the perspective of sharia compliance. Implementation studies of this kind are important because they show that hybrid contracts are not only a matter of fiqh, but also concern operations, accounting, audit, and governance. Even so, these studies do not specifically explain how DSN-MUI fatwas work as a quasi-regulation that bridges fiqh norms, state regulation, and institutional practice.

Fifth, a number of recent studies show that DSN-MUI fatwas increasingly play a role in responding to the digital transformation of Islamic finance. Hidayati (2023) shows that DSN-MUI fatwas on Islamic electronic money, information-technology-based financing services, and securities crowdfunding reflect the progressiveness of Islamic business law by drawing on the *ta'li'i* and *istiṣlāḥī* approaches. This study is important because it shows that DSN-MUI fatwas do not only preserve classical norms, but are also adaptive in facing the digitalization of finance. Yet this development at the same time underscores the need for a clearer governance framework. Digital financial products often contain a complex contract structure, platform mechanisms, information risk, and relationships among parties that differ from traditional financial products.

From this map of the literature, it can be said that earlier research has contributed something important in four respects. It has explained the position of DSN-MUI fatwas within the Indonesian legal system, discussed the relationship of DSN-MUI with the regulator and Sharia Supervisory Boards, mapped the concept and models of hybrid contracts in DSN-MUI fatwas, and examined the implementation of hybrid contracts in Islamic financial institutions. Even so, there is still an empty space that needs to be filled. Not many studies have explicitly read DSN-MUI fatwas as quasi-regulation in the governance of hybrid contracts. In industry practice, however, DSN-MUI fatwas do not function only as a religious answer. They also become a standard that shapes product design, steers compliance, serves as the basis of SSB supervision, is referenced by the regulator, and influences the behavior of Islamic financial institutions.

This article proceeds from the argument that DSN-MUI fatwas in the Indonesian Islamic finance industry work as quasi-regulation. They are not entirely the same as state regulation, yet they hold a regulatory function because they become a normative standard adopted in institutional practice and industry supervision. In the context of hybrid contracts, this function appears through four main mechanisms. First, the fatwa standardizes contracts by setting the type of contract, the conditions, the object, and the limits of implementation. Second, the fatwa grants sharia legitimacy to product innovation. Third, the fatwa becomes an instrument of sharia risk mitigation by preventing *ribā*, *gharar*, *maysir*, *zulm*, and *hīlah*. Fourth, the fatwa enters the governance of the industry through the review process of the Sharia Supervisory Board, product SOPs, sharia compliance audits, and reference within OJK regulation and the practice of financial institutions.

This article therefore aims to analyze the role of DSN-MUI fatwas as quasi-regulation in the governance of hybrid contracts in the Indonesian Islamic finance industry. More specifically, there are four things it seeks to explain. First, the position of DSN-MUI within the architecture of Indonesian sharia governance. Second, the way fatwa works as a quasi-regulatory instrument. Third, the role of fatwa in regulating hybrid contracts. Fourth, the strengths and at the same time the limitations of the fatwa-based governance model. The focus of this article is not merely to judge whether hybrid contracts in DSN-MUI fatwas are normatively valid, but also how those fatwas work as a regulatory device that shapes the behavior of the industry.

The novelty of this article lies in reading DSN-MUI fatwas as quasi-regulation in the governance of hybrid contracts. Unlike earlier studies, which generally place fatwa as a normative basis for products, a source of Islamic economic law, or a legal-formal instrument of compliance, this article positions DSN-MUI fatwas as a governance mechanism that weaves together *fiqh mu'āmalah*, state regulation, the Sharia Supervisory Board, and the practice of the Islamic finance industry. By focusing on hybrid contracts, the article offers a conceptual contribution to the study of sharia governance and Islamic financial regulation. At the same time, it provides a basis for strengthening the governance of hybrid products in Indonesia so that it becomes more standardized, accountable, and responsive to contemporary sharia risk.

Method

This study adopts a qualitative socio-legal design to examine how DSN-MUI fatwas operate as quasi-

regulation in governing hybrid contracts within Indonesia's Islamic finance industry. A qualitative approach fits well here. The aim is not to measure legal compliance in statistical terms, but to interpret the normative, institutional, and regulatory meanings that fatwas carry inside the governance structure of Islamic financial products. The socio-legal lens is chosen for a clear reason. In Indonesia, fatwas do not function merely as theological opinions. They interact with state regulation, Sharia Supervisory Boards, Islamic financial institutions, and everyday market practices. Such an approach makes it possible to trace how non-state religious norms can gain practical regulatory authority once they are adopted, referenced, and institutionalized in financial governance (Black, 2001; Baldwin et al., 2012; Levi-Faur, 2011; Cane & Kritzer, 2010).

The research rests on library-based inquiry, legal document analysis, and qualitative content analysis. Library-based inquiry is used to study scholarly works on sharia governance, Islamic financial regulation, hybrid contracts, and the legal authority of fatwa. Legal document analysis is applied to DSN-MUI fatwas, OJK regulations, Bank Indonesia regulations, MUI fatwa guidelines, and the relevant international standards. Qualitative content analysis is then employed to surface recurring themes, concepts, and regulatory functions across the selected documents. This method suits normative and institutional texts because it lets the researcher interpret legal meaning, classify patterns, and link textual norms to broader governance practices (Schreier, 2014; Krippendorff, 2019; Mayring, 2014; Bowen, 2009).

The primary data consist of DSN-MUI fatwas tied to hybrid contracts and Islamic financial products. These include fatwas on *murābahah*, *wakālah*, *ijārah*, *ijārah muntahiyah bi al-tamlīk*, *mushārahah mutanāqishah*, *rahn*, *wakālah bil ujrah*, Islamic insurance, Islamic capital market products, and digital Islamic financial transactions. The study also draws on the Pedoman Penetapan Fatwa Majelis Ulama Indonesia, OJK regulations and publications, Bank Indonesia regulations, Islamic financial industry reports, AAOIFI standards, and IFSB guiding principles. These documents were chosen because they reveal how Islamic legal norms are formulated, translated, and connected with financial governance. The secondary data come from books and journal articles on sharia governance, hybrid contracts, Islamic legal theory, regulatory governance, fatwa authority, and Islamic finance in Indonesia.

The documents were selected purposively based on their relevance to three analytical concerns. First, they had to relate to DSN-MUI's authority in Islamic economic and financial fatwas. Second, they had to address Islamic financial products that use hybrid contract structures. Third, they had to reveal a relationship among fatwa, regulation, supervision, and institutional implementation. This purposive selection keeps the analysis anchored to documents and literature that directly explain the role of fatwa in governing hybrid contracts, rather than discussing Islamic finance in a general way.

The analysis ran through several stages. First, the study identified DSN-MUI fatwas that contain or support hybrid contract structures. Second, the selected fatwas were analyzed to map their normative functions, including standardizing contracts, legitimizing products, limiting prohibited elements, and guiding implementation. Third, the study traced the relationship between DSN-MUI fatwas and state regulation, especially through the OJK and Bank Indonesia frameworks. Fourth, it categorized the quasi-regulatory functions of fatwa into standardization, product legitimacy, sharia risk mitigation, and integration into institutional governance. Fifth, it evaluated the strengths and limitations of fatwa-based governance in managing hybrid contract risks. The final stage synthesized the findings into a Fatwa-Based Governance Framework for Hybrid Contracts.

Table 1. Stages of Socio-Legal and Qualitative Content Analysis

Analytical Stage	Task Performed
1. Formulating the research focus	Defining the study's focus on DSN-MUI fatwas as quasi-regulation in governing hybrid contracts
2. Collecting primary documents	Gathering DSN-MUI fatwas, MUI fatwa guidelines, OJK regulations, Bank Indonesia regulations, AAOIFI standards, and IFSB guiding principles
3. Selecting hybrid contract cases	Identifying products that use combined contracts, such as <i>murābahah bil-wakālah</i> , <i>IMBT</i> , <i>mushārahah mutanāqishah</i> , <i>rahn</i> , <i>wakālah bil ujrah</i> , and digital Islamic finance products
4. Initial reading and document familiarization	Reading the selected documents to understand their legal language, normative structure, institutional context, and governance implications
5. Coding regulatory functions	Coding themes such as standardization, legitimacy, sharia risk mitigation, supervision, institutional adoption, and implementation control
6. Mapping fatwa-regulation relations	Analyzing how DSN-MUI fatwas interact with OJK rules, Bank Indonesia regulations, Sharia Supervisory Boards, and Islamic financial institutions
7. Interpreting quasi-regulatory authority	Assessing how fatwas gain regulatory force despite not being identical to state law
8. Synthesizing the framework	Developing a Fatwa-Based Governance Framework for Hybrid Contracts based on the thematic findings

To strengthen validity, the study uses source triangulation, comparing fatwa texts, state regulations, institutional guidelines, industry reports, and academic literature. This triangulation matters because fatwa-based governance cannot be grasped from a single source. Fatwa texts reveal the normative basis of Islamic financial products. Regulations show how those norms enter the formal financial system. Industry reports give a sense of market development, while scholarly literature helps explain the conceptual relationship among fatwa authority, regulatory pluralism, and sharia governance. Through this triangulation, the study tries to avoid a purely doctrinal reading and instead offers an institutional analysis of how fatwa works within the governance of Indonesia's Islamic finance industry.

This methodological design serves the article's main objective, namely to explain how DSN-MUI fatwas function as quasi-regulation in governing hybrid contracts. By combining socio-legal analysis with qualitative content analysis, the study can show that fatwas do not operate only as religious legal opinions. They shape product design, guide institutional supervision, influence regulatory practice, and control sharia risks in hybrid financial contracts. The method therefore provides an analytical basis for understanding DSN-MUI as a key actor in Indonesia's fatwa-based governance model.

Results and Discussion

1. DSN-MUI within the Architecture of Indonesian Sharia Governance

Islamic financial governance in Indonesia has a distinctive institutional character because it involves a relationship among religious authority, the state regulator, the Sharia Supervisory Board, and Islamic financial institutions. Within that structure, DSN-MUI stands in a central position as the body that formulates fatwas in the field of Islamic economics and finance. The fatwas it issues do not stop at being normative guidance for Muslims. They also become a reference for Islamic financial institutions in developing products, and at the same time for Sharia Supervisory Boards in carrying out their oversight (MUI, 2015; DSN-MUI, 2024; OJK, 2025a).

Theoretically, sharia governance is the system that keeps all the activities of an Islamic financial institution running in line with sharia principles, through mechanisms of supervision, fatwa, audit, compliance, and institutional accountability (IFSB, 2009; Hasan, 2011; Ginena & Hamid, 2015). In Indonesia, sharia governance runs not only through the internal mechanisms of Islamic financial institutions, but also through a national fatwa authority managed by DSN-MUI. This condition differs from a number of other jurisdictions that leave sharia authority more to the sharia board at the level of the institution or the central bank. Indonesia has instead chosen a more centralized model, because DSN-MUI fatwas become the national reference in setting Islamic financial products (Hasan, 2011; Muneza & Hassan, 2014; Hidayah et al., 2019).

This Indonesian model shows the close relationship among fatwa, regulation, and industry practice. DSN-MUI formulates sharia norms through fatwa. OJK and Bank Indonesia handle the institutional, prudential, and operational aspects. The Sharia Supervisory Board ensures that fatwa and sharia principles are truly applied in the products and activities of the institution. Islamic financial institutions then translate those fatwas and regulations into SOPs, contracts, product documents, financing policies, and services for customers. From this chain it is clear that DSN-MUI fatwas stand at the connecting point between the norms of fiqh and the operational system of modern finance.

Within the framework of regulatory governance, a relationship of this kind affirms that governance does not always work directly through state law. Regulation can also run through standards, guidelines, professional norms, non-state authority, and internal supervisory mechanisms recognized by the actors in the industry (Black, 2001; Scott, 2004; Baldwin et al., 2012; Levi-Faur, 2011). DSN-MUI fatwas are well read within this framework. They are not identical to legislation, yet they have a strong influence on the behavior of the industry. The fatwa becomes a reference in designing products, assessing sharia compliance, conducting the supervision of the Sharia Supervisory Board, and regulating the Islamic finance sector (Imaniyati, 2016; Syahputra, 2020; Renie, 2021; Suhendar, 2023).

The position of DSN-MUI as a fatwa authority also reveals a form of legal pluralism within the Indonesian Islamic finance industry. Legal pluralism arises when more than one source of norms operates within one social or institutional space. In Islamic finance, the norms of fiqh, fatwa, state regulation, industry standards, and business practice all meet to govern products and financial activities (Hidayah et al., 2019; Zuhdi, 2025). DSN-MUI fatwas sit between religious norms and state law. They are not a product of formal legislation, but they can acquire practical binding force once they are adopted by regulation or treated as a standard by Islamic financial institutions.

The role of DSN-MUI grows more important because modern Islamic financial products need not only the legitimacy of fiqh, but also the control of sharia risk. Sharia risk can arise when a product uses an inappropriate contract, when the relationship among contracts is unclear, when the object of the transaction is not real, or when operational practice strays from the purpose of the contract (Grassa, 2013; Ginena & Hamid, 2015). This is where DSN-MUI fatwas function as an initial instrument for steering product design so that it stays within the bounds

of sharia. But because fatwa is generally normative in character, its success depends heavily on how it is translated by the regulator, the Sharia Supervisory Board, and the Islamic financial institution.

For that reason, DSN-MUI cannot be understood merely as a body that issues religious legal opinions. Within the architecture of Indonesian Islamic finance, DSN-MUI plays the role of a connecting actor among *fiqh mu'āmalah*, state financial regulation, and industry practice. It is this function that becomes the footing for reading DSN-MUI fatwas as quasi-regulation, that is, religious norms that work in a regulatory way in the Islamic finance sector because they are accepted, referenced, and institutionalized by a range of industry actors.

2. Fatwa as Quasi-Regulation in the Islamic Finance Industry

The concept of quasi-regulation helps explain how DSN-MUI fatwas acquire regulatory force even though they are not entirely the same as state law. In the theory of regulation, modern governance does not always come into being through statutes, government regulations, or state sanctions. Governance can also work through technical standards, codes of conduct, certification, self-regulation, co-regulation, and institutional norms that are followed because of authority, legitimacy, or market need (Black, 2001; Scott, 2004; Levi-Faur, 2011; Baldwin et al., 2012). In this context, DSN-MUI fatwas have a quasi-regulatory character. They are not state regulation in a formal form, but they act as a standard that governs the design, implementation, and supervision of Islamic financial products.

DSN-MUI fatwas carry out the function of quasi-regulation through several mechanisms. First, the fatwa standardizes contracts. In an Islamic financial product, the fatwa sets the type of contract that may be used, the conditions of the contract, the object of the transaction, the relationship of the parties, the limits of profit, and the prohibition of elements that corrupt the contract. Standardization of this kind is important because the Islamic finance industry needs certainty about which contract may be used and how that contract must be applied. Without the standardization of fatwa, each institution could interpret a contract in its own way. The result would be a fragmented practice and an uncertain sharia compliance (MUI, 2015; DSN-MUI, 2024).

Second, the fatwa grants legitimacy to a product. An Islamic financial product gains its sharia status not because it uses Arabic terms or a particular contract structure, but because there is a fatwa that explains its permissibility. In the Islamic finance industry, sharia legitimacy is an important factor for public trust. Customers, investors, and regulators need certainty that the product offered does not conflict with sharia principles. It is at this point that DSN-MUI fatwas act as a source of normative legitimacy and at the same time as an instrument of market trust (Hasan, 2011; Ginena & Hamid, 2015; Hidayah et al., 2019).

Third, the fatwa functions as a mechanism of sharia risk mitigation. Sharia risk arises when the structure of a product potentially contains *ribā*, *gharar*, *maysir*, *zulm*, *jahālah*, or *hīlah*. DSN-MUI fatwas prevent that risk by setting the limits of the contract, the prohibitions, and the conditions of implementation. In hybrid products, this mitigation function feels very important because combining several contracts can give rise to a complex legal relationship. The fatwa plays a role in steering the combination of contracts so that it does not turn into a contractual engineering that violates sharia principles (al-Zuhaylī, 2004; al-ʿImrānī, 2006; al-Miṣrī, 2001).

Fourth, the fatwa enters institutional governance. The fatwa does not stop as a normative text, because it is internalized into the review mechanism of the Sharia Supervisory Board, product SOPs, employee training, sharia audit, and compliance evaluation. In practice, the Sharia Supervisory Board uses the fatwa as the basis for assessing the products and activities of an Islamic financial institution. The regulator, too, references DSN-MUI fatwas in formulating policy and in providing a sharia regulation channel. This shows that the fatwa works beyond the function of religious advice, because it becomes part of the system of product supervision and control (OJK, 2025a; OJK, 2025b; Syahputra, 2020).

Fifth, the fatwa functions as a bridge between *fiqh* and state regulation. *Fiqh mu'āmalah* has concepts of contract, condition, prohibition, and the principles of transaction. But the modern finance industry demands a more operational formulation so that these can be applied in the products of banks, insurance, the capital market, pawning, and financial technology. DSN-MUI fatwas play a role in translating the principles of *fiqh* into product norms that can be referenced by the regulator and financial institutions. In this sense, the fatwa works as a medium for transforming Islamic law into the governance of the modern finance industry (Imaniyati, 2016; Renie, 2021; Hidayati, 2023).

Even so, the quasi-regulatory function of fatwa also has its limitations. Because a fatwa is not a complete technical regulation, it often only sets the principle, the contract, and the general provisions. Its technical implementation still has to be translated into OJK regulation, the internal policy of the institution, product SOPs, and the supervision of the Sharia Supervisory Board. It is precisely at this point that a gap between the norm of the fatwa and the practice of the industry can appear. A fatwa may declare a particular contract valid, yet the practice of the institution can deviate when the flow of the transaction, the documentation, the record-keeping, or the supervision does not run correctly.

Even so, the role of fatwa as quasi-regulation remains a distinctive strength of Indonesian Islamic finance. DSN-MUI fatwas create a relatively uniform national standard, narrow the differences in interpretation among institutions, and provide a foundation for product innovation. Unlike a system that entirely leaves the sharia

decision to the sharia board of each institution, the Indonesian model provides a national fatwa authority that can maintain consistency in the direction of product development. In the context of hybrid contracts, this consistency is important because the structure of hybrid contracts carries a greater sharia risk than a single contract.

3. Governing Hybrid Contracts through DSN-MUI Fatwas

Hybrid contracts are an important object of governance in Islamic finance because they involve a combination of several contracts within one product or sequence of transactions. In contemporary fiqh, hybrid contracts are called *al-‘uqūd al-murakkabah*, namely a combination of several interrelated contracts within one legal and economic construction (al-‘Imrānī, 2006; al-Miṣrī, 2001). On the ground, hybrid contracts are used because modern products frequently demand a combination of functions, such as sale, agency, lease, partnership, collateral, and service. A combination of this kind can give rise to a product that is flexible and suited to market needs. But it also creates risk when the relationship among contracts is not regulated clearly.

In *murābahah bil-wakālah*, DSN-MUI fatwas play a role in regulating the use of the *wakālah* and *murābahah* contracts so that the two do not mix in a corrupting way. *Wakālah* is used when the financial institution gives the customer the authority to buy goods. *Murābahah* is used when the institution sells the goods to the customer at cost plus a profit margin. The governance function of the fatwa lies in regulating the relationship between authorization and sale, so that *murābahah* does not turn into a financing of money with an added profit. The main challenge is to ensure that the goods truly become the object of the sale and that the financial institution possesses the goods before selling them to the customer (DSN-MUI, 2000a; DSN-MUI, 2000b; Hartanto & Sup, 2022).

In *ijārah muntahiyah bi al-tamlīk*, DSN-MUI fatwas regulate the relationship between the lease contract and the transfer of ownership. This product combines the benefit of a lease with a promise or mechanism for transferring ownership at the end of the lease period. The governance function of the fatwa is to keep the lease contract from mixing with the sale within one contract in a way that would create ambiguity. The *ijārah* contract must keep its object of benefit, its term, its *ujrah*, and the responsibility of the parties clear. The transfer of ownership, too, must be placed through a mechanism that does not corrupt the character of the *ijārah* contract. In this respect, the fatwa functions as a tool for controlling the contract structure so that the product does not merely resemble conventional financing wrapped in sharia terms (DSN-MUI, 2002; al-Zuḥaylī, 2004).

In *mushārah mutanāqishah*, DSN-MUI fatwas regulate joint ownership and the gradual transfer of ownership shares. This product involves a partnership relationship, the lease of the benefit of an asset, and the gradual purchase of the financial institution's ownership share by the customer. The governance function of the fatwa lies in regulating the ownership shares, the profit ratio, the sharing of loss, the payment of rent, and the mechanism for transferring ownership. The main challenge is to ensure that the principle of *mushārah* is not lost because all the risk is placed on the customer. If the risk of ownership is not shared proportionally, the substance of *shirkah* becomes weak even though the formal structure of the contract appears to conform (DSN-MUI, 2008; OJK, 2024).

In *rahn*, DSN-MUI fatwas regulate the relationship among *qardh*, the collateral, and the *ujrah*. *Rahn* is widely used in Islamic pawnbroking institutions and can involve *qardh* as the loan, *rahn* as the collateral, and *ujrah* as the cost of maintenance or storage. The governance function of the fatwa is to keep the *ujrah* from turning into a benefit required on the *qardh*. In fiqh, *qardh* is essentially a *tabarru‘* contract that may not bring a benefit to the lender. The fatwa must therefore limit the *ujrah* so that it remains connected to a real service, not to the amount of the loan. It is here that the fatwa functions as a tool for mitigating the risk of *ribā* in a hybrid product that combines the *tabarru‘* and *mu‘āwadah* contracts (DSN-MUI, 2002; al-Miṣrī, 2001; al-Zuḥaylī, 2004).

In the *wakālah bil ujrah* product, DSN-MUI fatwas regulate the use of the *wakālah* contract accompanied by a service fee. This product is widely used in Islamic insurance, the Islamic capital market, and other financial services that require representation or fund management. The governance function of the fatwa is to ensure that the *ujrah* is given as compensation for a real service, not as a source of ambiguity in the relationship among the agent, the principal, the funds, and the result of the management. In more complex products, *wakālah bil ujrah* can intersect with other contracts such as *tabarru‘*, *muḍārahah*, or *mushārahah*. The fatwa therefore plays a role in steering the relationship among contracts so that it does not give rise to ambiguity of responsibility or a conflict of interest (DSN-MUI, 2006; Pitriani et al., 2024).

In Islamic digital finance, the governance function of the fatwa feels even more important. Products such as Islamic electronic money, information-technology-based financing services, and securities crowdfunding often involve many parties, a digital platform, a fast flow of funds, and a combination of contracts that is not simple. Hidayati (2023) shows that DSN-MUI fatwas in the field of digital finance reflect a progressive response to the development of financial technology. Digitalization, however, also adds to the complexity of governance, because risk now comes not only from the contract, but also from data, the platform, the algorithm, information asymmetry, and consumer protection. In this context, the fatwa must work together with state regulation, technology supervision, and compliance audit so that digital hybrid contracts do not stray from sharia principles.

From these few examples, it is clear that DSN-MUI fatwas regulate hybrid contracts through three layers of governance. The first is the normative layer, namely the setting of the contract, the conditions, the prohibitions,

and the principles. The second is the institutional layer, namely the use of the fatwa by the Sharia Supervisory Board, the regulator, and Islamic financial institutions. The third is the operational layer, namely the translation of the fatwa into SOPs, contract documents, the flow of the transaction, sharia audit, and service to customers. If one of these layers is weak, the fatwa can lose its regulatory effectiveness.

For that reason, the role of DSN-MUI in governing hybrid contracts does not stop at issuing fatwas. It also concerns the capacity of the fatwa to become a standard that can truly be implemented. Hybrid contracts require a regulation that not only answers the legality of the contract, but also controls the relationship among contracts, the sequence of transactions, the ownership of the object, the distribution of risk, transparency, and the prevention of legal engineering. DSN-MUI fatwas become the main instrument in that process, yet their effectiveness depends heavily on harmonization with regulation, the capacity of the Sharia Supervisory Board, and the compliance of Islamic financial institutions in practice.

4. The Strengths and Limitations of the Fatwa-Based Governance Model

The fatwa-based governance model holds a number of strengths for the development of the Indonesian Islamic finance industry. First, the model grants sharia legitimacy to product innovation. In an industry that rests heavily on public trust, sharia legitimacy is an important asset. DSN-MUI fatwas become a normative guarantee that a product has been examined on the basis of sharia principles. This means a great deal to customers, investors, regulators, and Islamic financial institutions, because sharia compliance is the main distinction between Islamic finance and conventional finance (Hasan, 2011; Ginena & Hamid, 2015).

Second, the model brings about national standardization. With DSN-MUI in place, Islamic financial institutions in Indonesia have a relatively uniform fatwa reference. That standardization narrows the potential for an overly wide difference in interpretation among institutions. In hybrid products, standardization is very important because a combination of contracts can be interpreted in various ways. DSN-MUI fatwas help to unify the basic principles so that product innovation stays within the same corridor (MUI, 2015; DSN-MUI, 2024; Pitriani et al., 2024).

Third, the model bridges classical fiqh with the needs of the modern industry. Many concepts of fiqh were born in the context of simple transactions, while the modern finance industry demands products that are far more complex. DSN-MUI fatwas play a role in interpreting the principles of fiqh so that they can be applied in contemporary products such as banking, insurance, the capital market, pawning, and digital finance. This process shows that the fatwa does not merely preserve a normative tradition, but also carries out a legal adaptation to economic change (Renie, 2021; Hidayati, 2023; Ulum, 2024).

Fourth, the model strengthens the supervision of the Sharia Supervisory Board. A Sharia Supervisory Board needs a standard for assessing whether the products and activities of an institution already conform to sharia principles. DSN-MUI fatwas provide the basis for that assessment. Without a national fatwa, a Sharia Supervisory Board would depend more on its own interpretation, and this could give rise to large differences among institutions. In Islamic financial governance, the fatwa provides a normative language that a Sharia Supervisory Board can use for product review, compliance audit, and recommendations for improvement (Muneeza & Hassan, 2014; Ginena & Hamid, 2015).

The fatwa-based governance model, however, also has its limitations. First, a fatwa is often normative in character and does not always provide detailed operational guidance. A fatwa usually sets the principle, the contract, and the prohibitions, but it does not always explain the indicators for technical implementation. As a result, an Islamic financial institution has to translate the fatwa into SOPs and product documents. In that process of translation, a difference in interpretation or a simplification that weakens the substance of the fatwa can appear.

Second, there is a possibility of a gap between the fatwa and the practice of the industry. A fatwa may formulate a contract structure correctly, yet the implementation on the ground can differ because of business pressure, limited human resources, the technology system, or a low level of customer understanding. Take the example of *murābahah bil-wakālah*. A fatwa may well require a clear sequence of authorization and sale. But operational practice sometimes makes *wakālah* only an administrative formality when the goods are not truly in the possession of the financial institution before being resold to the customer. A gap of this kind cannot be resolved merely by the presence of a fatwa. It demands substantive audit and supervision.

Third, the capacity of the Sharia Supervisory Board and of the industry's human resources also determines the effectiveness of the fatwa. A good fatwa will not be effective if those who carry it out at the financial institution do not understand the contract structure, the sharia risk, and its legal consequences. Studies of sharia governance show that the quality of sharia supervision is strongly influenced by the competence, independence, and access to information of the Sharia Supervisory Board (Hasan, 2011; Grassa, 2013; Ginena & Hamid, 2015). In hybrid products, that demand for competence grows higher because the supervisor must understand the relationship among contracts as well as its operational implications.

Fourth, digital financial products enlarge the challenge of fatwa-based governance. Digitalization makes products faster, more distributed, and involving non-traditional actors such as platforms, technology providers, aggregators, and digital users. The fatwa remains important as a normative basis, but digital supervision demands

integration with technology regulation, data protection, platform governance, and operational risk management. If the fatwa is not equipped with adequate technical guidelines and digital supervision, the quasi-regulatory function of the fatwa can weaken in the face of the innovation of Islamic fintech (Hidayati, 2023; Ulum, 2024).

On the basis of this analysis, the article offers a Fatwa-Based Governance Framework for Hybrid Contracts. This framework maps the function of the fatwa into four dimensions, namely the normative, the regulatory, the operational, and the substantive. The normative dimension relates to the setting of sharia principles, contracts, conditions, and prohibitions. The regulatory dimension relates to the role of the fatwa as a reference for OJK, Bank Indonesia, the Sharia Supervisory Board, and Islamic financial institutions. The operational dimension relates to the translation of the fatwa into SOPs, contract documents, audit, and service. The substantive dimension, meanwhile, relates to the capacity of the fatwa to safeguard *maqāṣid*, prevent *ribā*, *gharar*, and *hīlah*, and ensure justice in hybrid products.

Table 2. Fatwa-Based Governance Framework for Hybrid Contracts

Dimension	Function of Fatwa	Sharia Risk Controlled	Governance Strengthening Needed
Normative	Establishing contracts, conditions, objects, and prohibitions	Misuse of contracts, <i>ribā</i> , <i>gharar</i> , <i>maysir</i> , and <i>ẓulm</i>	Clearer parameters for permissible and impermissible hybrid contracts
Regulatory	Serving as a reference for OJK, Bank Indonesia, the Sharia Supervisory Board, and Islamic financial institutions	Regulatory inconsistency and fragmented product interpretation	Stronger harmonization among fatwas, regulations, and industry guidelines
Operational	Guiding SOPs, product documents, contract flows, audit, and internal compliance	Implementation gap between fatwa and practice	More detailed operational guidelines and sharia audit indicators
Substantive	Protecting <i>maqāṣid</i> , fairness, transparency, and real economic substance	Legal stratagem, formalism, unfair risk allocation, and weak consumer protection	<i>Maqāṣid</i> -based governance indicators for hybrid contracts

This framework affirms that fatwa-based governance cannot be grasped merely as a simple relationship between fatwa and product. The fatwa must be read as an instrument that works at several layers. At the normative layer, the fatwa explains the principles of Islamic law. At the regulatory layer, the fatwa acquires influence through its integration with the regulator and the supervisor. At the operational layer, the fatwa is translated into institutional mechanisms. At the substantive layer, the fatwa must be tested by its capacity to safeguard the objectives of sharia in practice. The closer the relationship among these layers, the more effective DSN-MUI fatwas become as quasi-regulation in governing hybrid contracts.

Thus, the main strength of the DSN-MUI model lies in its capacity to create a national standard and to connect fiqh with the industry. Its main limitation, meanwhile, lies in the need to strengthen operational detail, substantive audit, and *maqāṣid* indicators. For that reason, the future of hybrid contract governance in Indonesia is not determined by the number of fatwas issued, but by the capacity of those fatwas to be integrated with regulation, SOPs, the supervision of the Sharia Supervisory Board, sharia audit, and consumer protection. Fatwa as quasi-regulation will grow more effective when it does not stop at formal legitimacy, but turns into an instrument of governance capable of controlling sharia risk and ensuring substantive justice in Islamic financial products.

Conclusion

This article shows that DSN-MUI fatwas play a strategic role in Indonesia's Islamic finance governance that goes well beyond their function as religious legal opinions. When it comes to governing hybrid contracts, fatwas behave like quasi-regulation. They supply normative standards, steer product design, support sharia supervision, and shape institutional practices across the Islamic finance industry. DSN-MUI fatwas are indeed not identical to state regulations. Yet they acquire practical regulatory authority once regulators reference them, Sharia Supervisory Boards use them, and Islamic financial institutions internalize them in product development, contracts, SOPs, and compliance mechanisms.

The central finding of this article is that DSN-MUI fatwas govern hybrid contracts through four interrelated mechanisms. First, fatwas standardize contract structures by determining the permissible contracts, conditions, objects, and prohibitions. Second, fatwas provide sharia legitimacy for Islamic financial products, something that is essential for public trust and market confidence. Third, fatwas work as instruments of sharia risk mitigation by

preventing *ribā*, *gharar*, *maysir*, *ẓulm*, *jahālah*, and *hīlah* in complex financial products. Fourth, fatwas become embedded in institutional governance through product review, Sharia Supervisory Board supervision, internal procedures, sharia audit, and regulatory reference. Taken together, these mechanisms show that fatwas are not mere doctrinal statements. They are institutional instruments that shape the behavior of Islamic financial actors.

The article also makes clear that hybrid contracts demand stronger governance than single-contract products, simply because they bind several contractual relationships into one financial structure. Products such as *murābahah bil-wakālah*, *ijārah muntahiyah bi al-tamlīk*, *mushāarakah mutanāqishah*, *rahn*, *wakālah bil ujah*, and digital Islamic financial products hold complex relations among contracts, ownership, agency, risk, fees, and legal consequences. In this setting, DSN-MUI fatwas act as a control mechanism that keeps contractual combinations from sliding into legal stratagems that contradict sharia principles. Even so, the effectiveness of fatwa-based governance depends on how far fatwas are translated into operational guidelines, institutional supervision, sharia audit, and consumer protection mechanisms.

The contribution of this article lies in introducing the concept of fatwa as quasi-regulation in the governance of hybrid contracts. This perspective widens the study of DSN-MUI fatwas from a purely normative or doctrinal discussion into a broader analysis of sharia governance and Islamic financial regulation. The article puts forward the Fatwa-Based Governance Framework for Hybrid Contracts, built on four dimensions, namely the normative, the regulatory, the operational, and the substantive. This framework helps explain how fatwas move from religious legal reasoning into institutional governance, and how they can be strengthened to control sharia risks in modern Islamic financial products.

Despite this contribution, the study has its limitations. It rests mainly on document-based and socio-legal analysis of fatwas, regulations, and scholarly literature. Further research should test the proposed framework through empirical studies that involve DSN-MUI members, OJK officials, Sharia Supervisory Boards, Islamic banks, non-bank Islamic financial institutions, fintech platforms, and customers. Future research may also compare Indonesia's fatwa-based governance model with other jurisdictions, such as Malaysia, Bahrain, Pakistan, and the Gulf countries, to see whether fatwa as quasi-regulation can grow into a broader model for governing Islamic financial innovation. Studies of this kind would deepen our understanding of how religious authority, state regulation, and market practice interact in shaping the future of Islamic finance.

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