



Hilah (Stratagem) and Its Implications on Contemporary Islamic Financial Contracts

الحيلة وآثارها على العقود المالية الإسلامية المعاصرة

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Abstract

This paper explores "hilah" (legal stratagem) within modern Islamic financial contracts, tracking its evolution from classical roots to contemporary banking applications. A major issue today is the deep divide among scholars over these mechanisms, driven by a growing gap between formal contract paperwork and real economic impact. To this effect, this study examines how financial stratagems play out in practice, reviews recent fatāwā, and outlines the strict boundaries, like actual asset risk and independent contracts, needed to tell legitimate financial design apart from deceptive loopholes. Using a qualitative doctrinal method, our analysis shows that while Islamic finance has developed sound, Shari'ah-compliant alternatives to replace usurious transactions, careful juristic assessment (takyīf fiqhī) and consistent global oversight are still essential. Financial institutions must go beyond simple compliance checkboxes and align their operations with the broader goals of Islamic law (maqāsid). This research recommends the urgent need for separate constructive legal tools that protect the market from manipulative tricks that exploit loopholes. While instruments like murābahah, takaful, and sukūk can serve genuine business needs ethically, structures designed merely to disguise interest or avoid religious obligations compromise the entire system and highlight the urgent need for tighter oversight. By grounding modern banking practices in established legal maxims, this study provides Islamic finance professionals and regulators with a clear roadmap to navigate complex product engineering without sacrificing the ethical core of Shari'ah principles.

Keywords: Hilah, Contemporary Applications, Islamic Finance, Islamic Contracts.

ملخص البحث

تناول هذه الورقة البحثية مفهوم "الحيلة" (الحيلة الشرعية) ضمن عقود التمويل الإسلامي المعاصر، وتتبع تطورها من الأصول الفقهية الكلاسيكية إلى تطبيقاتها المصرفية الحالية. وتكمن المشكلة الرئيسية اليوم في الانقسام العميق بين العلماء حول هذه الآليات، وهو ما تغذيه الفجوة المتزايدة بين الشكليات القانونية للأوراق التعاقدية والأثر الاقتصادي الحقيقي على أرض الواقع. ولحل هذا الانسداد المعرفي، تبحث هذه الدراسة كيفية تطبيق الحيل المالية في الممارسة العملية، وتراجع الفتاوى الحديثة، وتحدد الضوابط الصارمة، مثل تحمل المخاطر الحقيقية للأصول واستقلالية العقود، اللازمة للتمييز بين الهندسة المالية المشروعة والمنافذ الاحتيالية المخادعة. وبالاعتماد على المنهج العقائدي النوعي، تُظهر تحليلاتنا أنه في حين نجح التمويل الإسلامي في تطوير بدائل سليمة ومتوافقة مع أحكام الشريعة لتحل محل المعاملات الربوية، فإن التكيف الفقهي الدقيق والرقابة العالمية المتسقة لا يزالان أمرين جوهريين لا غنى عنهما. ويجب على المؤسسات المالية أن تتجاوز مجرد الاكتفاء بـ"مربعات الاختيار" والشكليات التنظيمية للمطابقة، وتعمل على مواءمة عملياتها مع المقاصد الأوسع للشريعة الإسلامية. وتوصي هذه الدراسة بضرورة عاجلة لفصل الأدوات القانونية البناءة التي تخدم السوق عن الخدع التلاعبية التي تستغل الثغرات. وفي حين أن صيغاً مثل المراهبة، والتكافل، والصكوك يمكن أن تخدم احتياجات تجارية حقيقية بطرق أخلاقية، فإن الهياكل المصممة لمجرد إخفاء الفائدة أو التهرب من الواجبات الدينية تهن مصداقية النظام بأكمله، مما يسلب الضوء على الحاجة الملحة لرقابة أكثر صرامة. ومن خلال تأصيل الممارسات المصرفية الحديثة في القواعد الفقهية المقررة، تقدم هذه الدراسة للمهنيين والمشرعين في قطاع التمويل الإسلامي خارطة طريق واضحة لإدارة الهندسة المعقدة للمنتجات دون التضحية بالجوهر الأخلاقي لمبادئ الشريعة الغراء.

الكلمات المفتاحية: الحيلة، التطبيقات المعاصرة، المالية الإسلامية، العقود الإسلامية.

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1. Introduction

Islamic finance is a mechanism for business transactions between the contracting parties, rooted in *Shari'ah* principles. The Islamic finance industry has witnessed significant growth and evolution in recent years in response to global financial market dynamics and needs. The central objective of the Islamic financial framework stems from the need to avoid prohibitions on conventional transactions by providing appropriate and sustainable alternatives amid the current global economic challenges (Busari, et al., 2024).

The concept of "*ḥilah*," (legal stratagem), has been one of the focal mechanisms employed for the development and application of contemporary Islamic financial contracts. This study delves into the origins, foundational principles, and multifaceted applications of *ḥilah*, offering insights into their relevance within the complex landscape of modern Islamic finance (Rafique et al., 2023). Historically, Islamic jurisprudence sought to provide complex legal strategies and to enhance a balance between flexibility in contractual agreements and adherence to *Shari'ah* principles (Akanbi & Busari, 2024).

Although the term *ḥilah* has several interpretations concerning its legal implications, it is

important to consider whether it is mere legal maneuvering or otherwise. It is also essential to look into its legal permissibility and limitations (Bsoul, 2016). By tracing *ḥilah*'s historic trajectory, this study provides a comprehensive understanding of its development in the broader context of Islamic jurisprudence. Islamic financial institutions are facing a range of challenges and opportunities in the contemporary era, especially concerning how they compete favorably within the complexity of modern financial transactions. These challenges require an innovative solution that is consistent with *Shari'ah* principles while addressing the details of the global economic landscape. Within this context, the concept of "*ḥilah*" gains importance (Zainordin, 2016). Furthermore, the ethical considerations surrounding the use of "*ḥilah*" (stratagem) in Islamic financial activities cannot be overlooked. There is an urgent need to ensure that its financial practices not only comply with *Shari'ah* principles but also contribute to broader goals in the area of economic justice and ethical financial behavior (Syed E.A & Omar M., 2017).

This study by Rahman, M. A., & Kassim, S. H., (2020); Rafique, (2021), observed that the use of *ḥilah* in contemporary transactions often obscures the boundary between genuine *Shari'ah* facilitation and mere legal manipulation, thereby compromising the spirit of *maqāṣid al-Shari'ah*. Certain financial instruments replicate conventional interest-based practices, calling for serious examination of their juristic validity, ethical soundness, and impact on public trust.

1.1 Methodology

This paper takes a doctrinal and qualitative approach to explore the use of *ḥilah* in modern Islamic finance. The study first examines classical

Islamic texts to define *ḥīlah* and understand its principles. It then looks at contemporary financial transactions to see how these stratagems are applied to issues such as *ribā* and *gharar*. Additionally, the research includes a review of institutional *fatāwā* on *ḥīlah* implications in financial transactions and how well these practices align with the broader goals of *Sharī'ah* (*maqāṣid al-Sharī'ah*).

The remainder of this study is divided into four sections. Section one presents a literature review on the application of *ḥīlah* in Islamic finance. Section two explicates the concept of *ḥīlah* in Islamic jurisprudence. Section three highlights *Sharī'ah* rulings on *ḥīlah* and their effects on financial contracts. Finally, section four presents the discussion of findings and the study's conclusion.

1.2 Literature Review

Ḥīlah is one of the concepts being applied in structuring Islamic banking products to cater to the needs of Muslim consumers. Despite the ongoing debates among scholars about the permissibility of *ḥīlah* in Islamic jurisprudence, there is a need to specifically analyze its implications on Islamic financial contracts (Yaakob et al., 2016). However, *ḥīlah mashrū'ah* (permissible legal stratagem) aims to ensure juristic flexibility in accordance with Islamic principles. Therefore, the application of *ḥīlah* focuses on making existing conventional products compatible with *Sharī'ah* guidelines and the broader framework of Islamic finance (Bank Negara Malaysia, 2024; Yaakob et al., 2016).

Other studies considered *ḥīlah* as a legal device used in determining the validity of transactions in Islamic jurisprudence. According to Zakaria et al., (2023), the use of legal devices (*hiyal*) in classical and modern jurisprudence does not itself

determine the validity of a transaction; rather, it requires applying specific conditions and restrictions. Therefore, *maṣlaḥah* (public interest) must guide the development of new financial products to ensure *Sharī'ah* compliance. Jurists agree that *ḥīlah* is permissible only when it observes necessary juristic conditions and avoids violations such as *ribā* and other non-compliant elements.

Ḥīlah is a useful tool in financial engineering for easing legitimate financial challenges. Its application in Islamic finance, however, requires a clear framework to ensure adherence to Islamic rulings and to prevent any misuse or manipulative practices in financial transactions (Rafique et al., 2023).

Ibn 'Ashūr, (2004), explains that Islamic law recognizes two types of permissible *ḥīlah* (stratagem). The first involves moving from one lawful act to another, such as choosing to trade with accumulated wealth to prevent a potential loss through *zakāh*. This simply shifts from a legitimate obligation to a legitimate economic action. The second type allows a person to adjust a lawful duty in a way that makes it easier to fulfil, while remaining within *Sharī'ah* limits. An example is someone who decides to travel during Ramadan to lawfully break the fast because of the difficulty of fasting in extreme heat, with the intention of making up the missed fast later when conditions are more manageable.

The review of the literature reveals that existing scholarship is deeply polarized between the formal acceptance of legal stratagems based on literal contract compliance and their outright rejection based on macroeconomic outcomes. This division leaves a critical lacuna in modern Islamic financial regulation: there is a distinct lack of clear, objective operational guidelines grounded in classical legal maxims that can effectively

distinguish legitimate financial engineering from deceptive loopholes.

2. Concept of Hilah (Stratagem)

Hilah means “the skillful use of something”. Also refers to cleverness in managing affairs. Technically, *hilah* denotes a subtle and strategic approach employed to avert an undesirable outcome. It is often described as a method involving discreet tactics that enable a person to achieve their goal in a way that remains unnoticed, except by those with keen intelligence and sharp insight. However, *hilah* can be permissible or impermissible depending on whether its objectives, the means used, and its consequences align with *Shari’ah* principles (Al-Jawzi, 2002).

According to Ibn Nujaym, *hilah* is commonly used for things that are forbidden. Islamic jurists consider *hilah* as a tool used to escape from prohibition to permissibility (Ibn Nujaym, 1999). Ibn al-Qayyim al-Jawziyyah, however, posits that a tool used to transform a judgment of prohibition to permissibility may not be called *hilah* (stratagem), but rather a *makhraj* (a way out), that is, a meticulously devised plan intended to accomplish or address a particular objective (Al-Jawziyyah, 2002).

From a religious perspective, *hilah* can serve as a legitimate solution when it involves skill and perceptive judgment, and when its purpose is sincerely aimed at resolving religious dilemmas. Such resolutions are only valid when the stratagem is applied skillfully and perceptively while fully complying with Islamic law (Al-Hamawi, 1985).

The term *hilah* has many uses and meanings, which can vary across cultures and traditions. In modern scholarship, however, it often refers to practices that *Shari’ah* considers objectionable,

clever methods used to make the forbidden appear permissible or to superficially evade obligations. A well-known example is the *hilah* employed by the Jews, for which Allah Almighty pronounced a curse on them (Al-Mas’udi, 1985). This is considered by some jurists as a form of legal stratagem or deceit: they did not directly eat the forbidden fat, but transformed it and then traded it in a way that allowed them to benefit from it, as evident thus:

I heard Allah's Messenger ﷺ, in the year of the Conquest of Mecca, saying, "Allah and His Apostle made illegal the trade of alcohol, dead animals, pigs and idols." The people asked, "O Allah's Messenger ﷺ What about the fat of dead animals, for it was used for greasing the boats and the hides; and people use it for lights?" He said, "No, it is illegal." Allah's Messenger ﷺ further said, "May Allah curse the Jews, for Allah made the fat (of animals) illegal for them, yet they melted the fat and sold it and ate its price." (Al-Bukhārī, 2001, no. 2236).

According to Al-Shāṭibī (1996), *hilah* becomes prohibited when it allows a person to bypass legal obligations through deceptive means, contradicting the true intent of the Lawgiver and disregarding the underlying purpose of the duty. This is the same meaning mentioned by Sheikh al-Islam Ibn Taymiyyah. It is mostly used to convert from one situation to another, but it will only be permissible if it is used for good purposes of actions (Ibn Taymiyyah, 1987).

Al-Shāṭibī (1996) further argues that *hilah* (legal stratagem) involves using either a permissible or impermissible approach to circumvent a ruling or transform it into a different judgment. This transformation occurs through a specific intermediary, aiming to achieve a purpose while lacking legislative approval.

Hilah refers to ways people navigate or work around *Shari'ah* rulings. It can sometimes offer legitimate solutions to ease genuine hardship but using it to achieve goals that go against *Shari'ah*, whether logically or customarily, is forbidden. In everyday language, *hilah* means moving from one state to another with skill and cleverness. Among jurists, the term usually describes strategies that bypass or alter *Shari'ah* rules, especially regarding what is forbidden, though it can also include lawful methods (Rafique, et al., 2023).

2.1 *Shari'ah* Rulings on *Hilah* and their Effects

Legal stratagems (*hiyal*) are classified into permissible and prohibited categories. Permissible stratagems help avoid sin, counter falsehood, or claim a right without violating *Shari'ah* principles, while prohibited ones undermine legal foundations or justify wrongdoing. A stratagem is permissible if it is used to achieve a lawful goal without violating *Shari'ah* principles. If the stratagem itself is forbidden but aims to achieve something lawful, the person is accountable for using unlawful means but not for the intended goal. If both the stratagem and its outcome are lawful, then it remains permissible. Additionally, if the stratagem was not originally intended as a means to achieve a lawful goal but is used in that way, it is still acceptable (Abu Hatim, 2012).

On the other hand, a stratagem is prohibited if it is used to justify wrongdoing, invalidate a right, disguise falsehood, or create confusion. If both the stratagem and its purpose are unlawful, it is strictly forbidden. If the stratagem is lawful but is misused to achieve an unlawful purpose, it also becomes prohibited. Furthermore, if the stratagem was originally meant for something lawful but is manipulated as a means to wrongdoing, it is equally

forbidden. Such stratagems undermine fundamental legal principles and contradict *Shari'ah*-based interests (Ad-Dālimī, 2020).

In sum, *hilah* ranges from clever problem-solving to manipulative deceit. While jurists permit legitimate alternatives (*makhārij*) to ease genuine hardship, stratagems are strictly forbidden if they use formal checkboxes to bypass religious duties, disguise forbidden transactions, or undermine the ethical intent of Islamic law.

The different forms of *hilah* in *Shari'ah* are not all of the same degree, some of which are permissible, while some are prohibited.

2.2 Permissible *Hilah* in *Shari'ah*

According to Al-Sarakhsī (1993), this type of *hilah* is recognized and accepted by jurists as permissible in *Shari'ah*. Often called a “legal exit,” it offers a practical way to handle difficulties without changing or invalidating a ruling. However, its use must follow *Shari'ah* principles, avoid harm, and meet the obligation to obey Allah ﷻs commands and avoid prohibitions. When *hilah* is applied correctly, it helps achieve the goals of *Shari'ah*, promoting truth, preventing wrongdoing, and observing what is forbidden, making it both legitimate and lawful (Al-Mas'ūdī, 1985).

Even though *hilah* literally means stratagem, technically in *Shari'ah*, it refers to a legitimate exit, through legitimate means, to reach a ruling on a permissible matter in *Shari'ah* (Ibn Nujaym, 1998; Ibn Taymiyyah, 1987).

Al-Sha'abī said: “I do not object to using *hilah* (legal stratagem) if it serves a lawful purpose. In fact, some stratagems can lead to significant benefits, as they help a person avoid sins and prohibitions by redirecting them towards what is permissible. The

blameworthy (*makruh*) type of stratagem is when a person uses it to invalidate wrong, to support falsehood through deception, or to create doubt in a matter. But as for lawful stratagems of the type mentioned earlier, there is no harm in using them,” as cited in (Ibn Ashur, 2004).

Hence, the legality of *hilah* could be summed up as follows: *hilah* either meets the entire legal objective (*halal*) or part of it (*makruh*) or does not fulfill it (*haram*). In other words, *hilah* would be considered a fraudulent deception if it misses the entire objective of the *Shari'ah*; without achieving an alternative to it; until another objective from the objectives of the *Shari'ah* is achieved.

Conversely, *hilah* could adequately be of help in achieving the meanings of *Shari'ah* and its objectives. For instance:

- a. Allah ﷻ provided Prophet Ayyub ASW with a lawful way out (*makhraj*) after he swore an oath to strike his wife a hundred lashes, then regretted it. Allah ﷻ said:

“And take in your hand a bundle of thin grass, and strike with it, and do not break your oath. Indeed, We found him patient. An excellent servant! Indeed, he was ever turning to Us.” (Sād 38:44)

Allah ﷻ commanded Ayyub ASW to take a handful of light twigs and strike her once, which counted as fulfilling his oath without actually harming her. This served as a substitute for the literal one hundred lashes. The point of inference is that Allah ﷻ Himself taught His Prophet Ayyub ASW a *hilah Shar'iyyah* (lawful stratagem) to free him from his oath without sinning. According to Imam al-Shāfi'i, in *Kitab al-Umm*, this verse is not exclusive to Prophet Ayyub ASW but rather, demonstrates that using lawful stratagems (*hiyal*) to resolve legal

difficulties is permissible in *Shari'ah* when done with sincerity and within ethical limits (Al-Shāfi'i, 2001).

According to Abdul Haq bin Atiyah (2001), Almighty Allah ﷻ allowed Prophet Ayyub ASW to fulfill his oath more easily. Instead of striking his wife a hundred times as he had vowed, he was permitted to do so with a single strike, relieving him of hardship while still fulfilling his pledge.

- b. Allah ﷻ says: “So when he had furnished them with their provisions, he put the drinking cup in his brother's saddlebag. Then a crier proclaimed, “O caravan, you are indeed thieves” (Surat Yusuf: 70). So, Prophet Yousuf ASW, employed a stratagem to withhold his younger brother (Bunyamin) away from the elder brother based on the case of the missing measure cup of the king. Allah ﷻ supported Prophet Yusuf ASW, in this stratagem by saying: “So he began with their vessels before his brother's vessel, then he extracted it from his brother's vessel. Thus, We did plan for Yusuf. It was not for him to take his brother by the king's religion unless Allah willed” (Surat Yusuf: 76).
- c. On the authority of Abu Sa'id Al-Khudri and Abu Hurayrah, may Allah be pleased with them both: The Messenger of Allah, may Allah bless him and grant him peace, appointed a man to oversee Khaybar. He brought him some dates from Janīb. The Messenger of Allah, may Allah bless him and grant him peace, said: “Is Khaybar eating dates like this?” He said: “No, by Allah, O Messenger of Allah. We take a *Sa'* (four hand cups) of this for two *Sa's*, and a *Sa'* for three *Sa's*.” The Messenger of Allah ﷺ said: “Do not do that. Sell the date and obtain dirhams, then buy another good one with the dirhams” (Al-Bukhari, 2001, No.: 2201).

According to the *hadith*, the Prophet Muhammad ﷺ guided a man to use a permissible

legal stratagem (*ḥilah mashrū'ah*) to acquire high-quality dates without violating the prohibition of usury (*ribā*). He instructed the man to sell low-quality dates for dirhams, which were a form of currency, and then use the dirhams to purchase better-quality dates. This approach allowed him to achieve his desired outcome, securing the good dates while ensuring that the transaction was in accordance with Islamic law, keeping it free from *ribā* and safeguarding the man's debt.

This *ḥadīth* highlights that, in *Sharī'ah*, a contract's validity depends on following its proper legal form, not merely the intentions of the parties involved. An action that is initially prohibited due to its improper form can become permissible once the form is corrected, even if the underlying purpose remains the same. This illustrates the importance of adhering to *Sharī'ah* procedures to ensure both legality and legitimacy (Al-Qaraḍāghī, 2009).

Al-Jawzī (1990), stated that various forms of permissible stratagems exist across all chapters of jurisprudence, aligning with *Sharī'ah* and serving as legitimate means to achieve permissible goals without violating its principles. Among the evidence cited by those who permit the use of *ḥilah* is the *ḥadīth* of Barīrah. She once brought meat to the Prophet ﷺ, and when he was informed that it was meat given to her as charity, the Prophet ﷺ said: "*It is charity for her, but a gift for us*" (Al-Bukhārī, M. 2001, no. 5284). The reasoning behind this evidence is that the ruling concerning the meat changed from being unlawful for the Prophet ﷺ (since charity was prohibited for him) to being lawful, because a gift is permissible for him to accept. Although the meat itself did not change, its ruling was altered due to its transfer of ownership, which suggests that a change in form can lead to a change in legal ruling.

2.3 Prohibited Stratagem (*Ḥilah*) in *Sharī'ah*

The main rationale behind the prohibition of *ḥilah* in Islam is that it opens the way for violation of the law. Allah ﷻ buttresses this in His saying: "Surely the hypocrites seek to deceive Allah, but He outwits them" [An-Nisāi: 142].

This verse exposes the danger of hypocrisy, when people distort religious truths and manipulate its rulings for their own selfish purposes. Allah ﷻ condemns such deceit, as trying to outsmart His guidance is both wrong and futile. Had they acted with honesty and sincerity, the situation would have been far simpler (Al-Shāṭibī, 2019).

Ḥilah is also considered a prohibition based on the *ḥadīth* of the Prophet ﷺ on prohibiting stratagems in the use of pig meat, as explicated thus:

"On the authority of Jabir bin Abd Allah, may Allah be pleased with them both, that: He heard the Messenger of Allah, may Allah bless him and grant him peace, saying in the year of the conquest, while he was in Makkah: "Indeed, Allah and His Messenger forbade the sale of wine, dead meat, pigs, and idols." It was said: O Messenger of Allah, have you seen the fat of a dead body? It is cooked. Ships are used with it, hides are anointed with it, and people use it in the morning prayers. He said: "No, it is forbidden." Then the Messenger of Allah, may Allah bless him and grant him peace, said that: "Allah fought the Jews. When Allah forbade their fat, they made it whole, then sold it, and then they ate" (Al-Bukhārī, 2002, no. 2236).

Nevertheless, *ḥilah* can be acceptable in some circumstances based on the textual sources that Allah ﷻ will give to those who have consciousness of Allah ﷻ.

"And whoever fears Allah - He will make for him a way out" [Talaq: 2].

This verse conveys the message that those who fear Allah ﷻ will be granted a way out, and without a doubt, these stratagems serve as a means of escaping from distressing situations for people.

Therefore, it is fair to say that the preponderant definition of *hilah* is the latter approach that considers both its permissible and forbidden aspects. *hilah* encompasses legitimate tactics or lawful exits, as well as forbidden methods. Hence, the definition must be comprehensive and all-encompassing by implying the juristic rules based on the intent and application of *hilah* either for permissibility or Prohibition.

Although deception (*gharar*) is different from legal stratagem (*hilah*), all *gharar* (deception) and *hilah ghayr mashrū'ah* (prohibited stratagem) are forbidden. If an act that appears permissible is presented to nullify a legal rule and to change it from its appearance to another rule, then it is forbidden. The result of the act in reality is a breach of the rules of *Shari'ah*, like the one who gives away his money at the beginning of the month to escape from *zakah*; it is a deception and forbidden form of *hilah* (Al-Shāṭibī, 2019).

Ibn Battah al-Akbari, may Allah have mercy on him, said in his book, "Ibtāl al-ḥilah" (The Invalidation of Stratagem): "Stratagems in religion are forbidden in the Book and the *Sunnah*, and stratagem does not lead to the permissibility of the obligations committed if it is based on a stratagem that contradicts the intent of *Shari'ah*, whether it is a divorce, a divorce by *khul'*, a sale, or other rulings. It is a ruling that is nullified and rejected and condemned by religious scholars and jurists" (al-Isnawi, 2008).

Ibn Taymiyyah said that when the word "*hilah*" is used, in most cases, it may refer to the stratagems that make forbidden things permissible,

such as the Jewish stratagems. However, it is found that jurists use it to refer to permissible things as well, and perhaps Sheikh Al-Islam means the Hanbali jurists, as they usually use the word "*hilah*" to refer to forbidden things only (Al-Isnāwī, 2008).

Islamic jurisprudence handles *hilah* dynamically based on structural design and legislative intent. While it strictly invalidates deceptive pretext engineered to bypass religious duties or synthesize *ribā*, it endorses authentic structural alternatives (*makhārij*) that alleviate economic hardship, provided they preserve proper contractual forms and align with the ethical objectives of Islamic law.

To bridge the gap between theoretical juristic debates and everyday financial transactions, modern Islamic financial design can rely on four practical guidelines (*dawābiṭ*).

First, the transaction must achieve purposive alignment, meaning its real economic outcome has to back the true ethical goals of Islamic law, rather than just acting as a clever trick to escape religious duties or disguise usury. Second, the setup requires contractual independence and real risk allocation, which means every single agreement in a multi-tiered financial product must carry genuine commercial risk and actual asset ownership. Third, the product mechanics must guarantee the removal of structural obscurity, forbidding banks from using overly dense, complicated layers of paperwork to hide a standard interest-bearing loan behind a compliant mask. Finally, the deal must maintain the preservation of valid legal form, ensuring that all the necessary legal steps are executed cleanly so that the contract remains solid on paper without breaking the spirit of *Shari'ah*.

2.4 Implications of *Ḥilah* (Stratagem) in Islamic Finance

Islamic contracts are guided by *Shari'ah* principles and procedures. These rules influence not just the legal content, but also the form, appearance, and overall structure of the contracts, setting them apart from conventional agreements. Islamic financial institutions are established primarily to offer products or services that comply with *Shari'ah* standards. As for *ḥilah*, it involves the use of legal mechanisms to achieve *Shari'ah* compliance in complex financial scenarios. Historically, scholars have used *ḥilah mashrū'ah* (permissible legal stratagem) to navigate the constraints of Islamic law, ensuring that financial transactions adhere to both the letter and the spirit of *Shari'ah* (Bartoletti, 2024).

The current study asserts that *ḥilah* can structure transactions in a way that avoids *ribā* and adheres to principles of equity and ethical investment. *ḥilah* could help to ensure that lease agreements are structured to avoid *ribā*. *ḥilah* has the dynamic strength to ensure that the lease payments reflect a fair return on the asset rather than interest. *ḥilah* shall be required to ensure the asset is tangible and properly owned by the issuer. The use of *ḥilah* helps in maintaining transparency and ensuring the lease payments are not construed as interest (Sokris et al., 2024).

The use of *ḥilah* must be transparent and avoid manipulation or exploitation of *Shari'ah* principles. The intent should be to achieve genuine compliance rather than circumventing *Shari'ah* requirements. *ḥilah* must be applied in a way that maintains the integrity and credibility of Islamic finance contracts. It would be difficult to differentiate between permissible and forbidden stratagems (*ḥilah*) in doubtful matters. As long as *ḥilah* does not destroy a legal order, nor contradict

an interest that the *Shari'ah* has recognized, nor is included in the prohibition, nor does it invalidate itself, it is permissible to issue a *fatwa* on it to strengthen the performance of Islamic finance contracts (Rafique et al., 2023; Sjafrī, 2017). However, the *ḥilah* is considered prohibited if it carries ambiguity, obscurity, and doubtful contents, if the truth is unclear with conclusive evidence, if the interest of *Shari'ah* is unclear in it, and if it is contrary to an interest approved by *Shari'ah*. This is essentially because it is among the doubtful matters; disagreements occur in it, and practice in issuing *fatāwā* on it for Islamic finance contracts is unsafe, dangerous, and risky (Mansoori, 2011).

Modern Islamic finance relies on legitimate stratagems to balance strict legal form with ethical objectives. It sometimes safely facilitates markets by ensuring true asset ownership and real risk-sharing. However, overly complex financial engineering often degenerates into deceptive loops that merely mimic conventional interest-bearing debt. When contracts create such structural ambiguity (*shubuhāt*), regulators must look past nominal compliance checkboxes and enforce strict oversight to protect the system's ethical integrity.

3. Differentiating *Hiyal* (Legal Stratagems) from Non-Compliant Contemporary Financial Transactions

In Islamic jurisprudence, *ḥilah* denotes juristic stratagem that may be lawful or unlawful depending on intention and outcome. When used to facilitate legitimate ease (*taysīr*), it can support the *maqāṣid al-Shari'ah*. In contrast, *ghishsh* (cheating), *tadlīs* (hide defect), *khiyānah* (betrayal), and *taghrīr* (deception), represent moral corruption, which the *Shari'ah* strictly forbids. The significant distinction lies in intention, method, and impact. This is

because, although *hilah* may uphold *Shari'ah* objectives, deception undermines them by violating *hifz al-din*, *hifz al-mal*, and *hifz al-'ird*. Today, some navigate complex financial and legal systems while staying true to Islamic principles, while others exploit loopholes to justify actions that contradict the essence of *Shari'ah*.

3.1 Ethical and Permissible Transactions in *Shari'ah*

These strategies allow individuals and businesses to achieve lawful goals while remaining within the framework of Islamic law.

a) Using *Murabahah* Instead of Interest-Based Loans:

Since conventional bank loans involve interest (*ribā*), which is forbidden in Islam, Islamic banks offer *murabahah* (cost-plus financing) as a *halal* alternative. Instead of charging interest, the bank buys the asset and sells it to the customer at a marked-up price with agreed-upon payments (Akanbi & Busari, 2024). “Allah has permitted trade and forbidden *ribā*.” (Qur'an 2:275) The Prophet ﷺ encouraged structured financial dealings that ensure fairness, as seen in *Salam* and *Istisnā'* contracts. “Whoever advances something, let him advance it by a known measure, a known weight, and for a known period” (Al-Bukhārī, 2002, no. 2240).

The *murabahah* model applies a permissible *hilah* (*makhrāj*) by transforming a forbidden interest-bearing loan into asset-backed trade. Instead of exchanging money for money with a premium (*ribā*), the bank buys a physical asset and sells it at a transparent markup, anchoring financial returns in real-market commerce as sanctioned in the Qur'an (2:275).

b) *Takaful* (Islamic Insurance) as an Alternative to Conventional Insurance:

Traditional insurance often involves *gharar* (excessive uncertainty) and *ribā*, so Islamic scholars developed *takaful*, a system where policyholders contribute to a mutual fund that supports those in need (Mohd Hussin, et. al., 2024). This aligns with the verse of the Quran: “Help one another in righteousness and piety.” [Al-Maidah:2]

The Prophet ﷺ said: “The believers in their mutual kindness, compassion, and sympathy are like one body.” (Al-Bukhārī, 2002, no. 6011).

The *takaful* model applies a permissible *hilah* (*makhrāj*) by shifting the legal framework of insurance from a commercial exchange (*mu'āwadah*) to a voluntary donation (*tabarru'*). This structural change eliminates forbidden uncertainty (*gharar*) and *ribā*, transforming a traditional risk-transfer sale into a *halal* pool of mutual assistance, fully satisfying Al-Maidah:2.

c) *Sukuk* (Islamic Bonds) Instead of Conventional Bonds:

Instead of issuing interest-based bonds, Islamic financial institutions create *Sukuk*, which are tied to tangible assets and structured around lawful trade and investments (Busari et al., 2019), in alignment with the verses: “Do not consume one another's wealth unjustly, but only [in lawful] business by mutual consent” [Al-Nisā':29]; and “O believers! Intoxicants, gambling, idols, and drawing lots for decisions are all evil of Satan's handiwork. So, shun them so you may be successful” [al-Mā'idah:90].

The Prophet ﷺ encouraged ethical investments and prohibited speculative financial dealings based on the following *hadith*: “And

whoever says to his friend: Come, let me gamble with you, let him give charity" (Muslim, 2006, no. 1647).

The *Sukuk* model applies a permissible *ḥilah* (*makhraj*) by transforming a conventional debt obligation into fractional asset ownership. Instead of exchanging cash for interest-bearing paper, investors buy certificates tied to tangible assets and real risk-bearing investments, shifting the transaction from prohibited speculation to ethical, shared-profit business under Al-Nisā:29.

d) Negotiating Work Arrangements in Non-Muslim Countries:

A Muslim employed in a conventional bank may request to work only in non-conventional lending-related departments, such as risk assessment or customer service, to avoid direct involvement in interest-based transactions. *"Cooperate in righteousness and piety, but do not cooperate in sin and aggression"* [Al-Mā'idah:2]. An important Islamic juristic principle of *sadd al-dhara'i'* (blocking the means) that leads to evil is: *"What leads to haram is itself haram."* To avoid questionable earnings, scholars recommend seeking lawful alternatives within the workplace.

The Qur'an justifies the essence of blocking the means that lead to evil as follows: *"O believers, do not insult what they invoke besides Allah, or they will insult Allah spitefully out of ignorance"* [Al-An'ām: 108].

This structural adjustment applies a practical *ḥilah* (*makhraj*) by shifting a worker's professional scope away from forbidden operations. By moving from interest-bearing credit desks to neutral departments like risk assessment, the employee successfully navigates a restricted work environment, satisfying Al-Mā'idah:2 by blocking

direct complicity (*sadd al-dhara'i'*) in usurious banking transactions.

According to the Assembly of Muslim Jurists of America [AMJA], (2009), and Islamic Finance Singapore [IFSG], (n.d.), contemporary jurists have different opinions on conventional bank employment: traditional views prohibit all roles due to systemic assistance in interest (*ribā*), while contextual positions allow non-lending functions (e.g., customer service, IT) in non-Muslim majority regions. Under necessity, legal concessions (*rukḥṣah*) permit these roles while advising a gradual transition to fully compliant alternatives.

The position of Ibn Qudāmah, (1997), posits thus: *"If a Muslim hires himself out to a non-Muslim (dhimmi) for work, it is valid; because Ali, may Allah be pleased with him, hired himself out to a Jew, drawing water for him in exchange for a date for each bucket, and he brought this to the Prophet (peace and blessings be upon him), and he ate it. A man from the Ansar did the same, and brought it to the Prophet (peace and blessings be upon him), and he did not object"*.

However, the International Islamic Fiqh Academy (IIFA, 1989, No. 10, 2/10) maintains a strict structural prohibition, ruling employment in any branch of a conventional bank impermissible. The IIFA emphasizes that regardless of departmental segregation, all operational roles systemically assist the core institution in processing prohibited interest-bearing transactions (*ribā*), rejecting internal role adjustments.

3.2 Contemporary *Fatāwā* Related to Financial *Ḥilah*

The International Islamic Fiqh Academy prohibits structured and inverse *tawarruq* due to collusive

arrangements between financiers and liquidity seekers. These mechanisms utilize artificial commodity transactions as legal stratagems (*hiyal*) to exchange immediate cash for greater future debt. Consequently, the Academy classifies these structures as usurious (*ribā*) and mandates authentic asset-backed alternatives (International Islamic Fiqh Academy, 2009, Resolution 179 (19/5)).

To mitigate prohibited legal stratagems (*hiyal*) in monetization (*tawarruq*), the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Clauses 4/5 & 4/7; distinguishes valid monetization from the prohibited buy-back trick (*bay' al-'inah*). Under *Shari'ah* Standard No. 30, AAOIFI bans self-delegation, barring institutions from acting as the client's resale agent for their own sold commodities to eliminate collusive usurious loops (*ribā*) and ensure real economic risk (AAOIFI, 2015).

In contrast to total prohibition, Bank Negara Malaysia (BNM) permits structured monetization (*tawarruq*) but mitigates the risk of deceptive legal stratagems (*hiyal*) through stringent operational firewalls. According to BNM's regulatory framework, to prevent transactions from acting as artificial covers for usury (*ribā*), institutions must enforce absolute sequencing in contract execution and establish genuine ownership or constructive possession of the underlying assets, thereby ensuring that financial contracts represent distinct economic actions rather than synthetic loops (Bank Negara Malaysia, 2018).

4. Discussion of Finding

The findings show that contemporary uses of *hilah* fall into two contrasting categories: *ethical juristic facilitation* that supports *Shari'ah* objectives, and

deceptive maneuvers that undermine them. In Islamic jurisprudence, *hilah* is acceptable when its intention, structure, and outcome promote legitimate ease (*taysir*) and align with the *maqāsid al-Shari'ah*. In contrast, practices rooted in *ghishsh*, *tadlis*, *khiyānah*, or *taghrir* constitute prohibited deception because they violate objectives such as *hifz al-māl* and *hifz al-dīn*.

The findings highlight several lawful strategies that provide *Shari'ah*-compliant alternatives to prohibited transactions. Examples include *murābahah* as a substitute for interest-based loans, *takaful* to avoid *gharar* in conventional insurance, and *sukūk* as an ethical alternative to interest-bearing bonds. These mechanisms demonstrate how juristic creativity enables individuals and institutions to meet modern economic needs without breaching the Qur'anic prohibitions on *ribā*, *maysir*, or deception. Likewise, workplace adjustments, such as avoiding direct involvement in interest, reflect the principle of *sadd al-dharā'ī*. This finding aligns with the contention by Dusuki, et al., (2012) and Mikail, et. al., (2024), stating that *Shari'ah* compliance in IFIs requires vigilance across the entire product lifecycle. Increasing financial complexity heightens risks, making prompt rectification, disclosure, and strong controls essential to prevent non-compliance and ensure income purity. The findings also reveal prohibited financial transactions, such as *bay' al-'inah-based* transactions, temporarily transferring wealth to avoid *zakah*, rebranding interest-based loans as Islamic, falsifying *halal* certification, and exploiting Islamic finance labels for tax advantages.

Though outwardly compliant, these strategies contradict Qur'anic injunctions regarding unjust consumption of wealth and the Prophetic prohibition of cheating. Similarly, Rafique et al.,

(2023) show that the most recent discussions focus on how *ribā*-related stratagems are used to sidestep conventional financial rules, largely driven by traditional scholars reacting to modern Islamic finance. Much of the work comes from Malaysia and a few Western countries. Therefore, the contrast between ethical and unethical *hiyal* underscores the ongoing tension between form and substance in contemporary Islamic finance. Ethical *hiyal* uphold the welfare-oriented objectives of *Shari'ah*, whereas deceptive strategies erode trust and compromise the moral integrity of Islamic economic practice. Strengthening oversight and aligning modern tools with *maqāṣid al-Shari'ah* remain essential for safeguarding authenticity and public confidence.

5. Conclusion

This study explored how *hiyal* operate within Islamic jurisprudence, looking closely at how these legal stratagems are actually used and their ethical footprint in modern financial deals. The analysis reveals that *hiyal* can serve as a highly practical legal tool. It gives banks the flexibility to design complex financial products around tricky market realities while still technically checking every compliance box required by *Shari'ah*. However, overusing or relying too heavily on these legal setups creates a serious ethical dilemma. When contracts are engineered this way, they often end up prioritizing surface-level paperwork over real, substantive commitment to the deeper goals of Islamic law. The study highlights a deep divide in current scholarship. On one hand, structural formalism blindly approves financial products based on literal contract checkboxes; on the other, macroeconomic reductionism completely dismisses transactions simply because their final financial payouts look like

conventional debt. This research proves that a stratagem is not bad by default. When used as a genuine legal exit (*makhraj*) in asset-backed products like *Sukūk al-Ijārah*, it actually protects the market by ensuring true asset ownership (*milkiyyah*) and real commercial liability (*ḍamān*). The trouble starts with synthetic structures like organized *tawarruq*, where the stratagem decays into a deceptive trick designed to hide standard interest-bearing loans. To fix this disconnect between formal paperwork and real economic impact, this study introduces a four-part regulatory filter (*dawābiṭ*). This framework requires any modern financial product to actively prove its purposive alignment with ethical law, maintain complete contractual independence, bear real market risk, and flawlessly execute valid legal forms. Because of these realities, structuring contracts in the Islamic finance sector must always anchor itself to core *Shari'ah* fundamentals. This means completely avoiding *ribā*, ensuring all transactions are backed by genuine assets, and accepting real ownership risks. While applying *hiyal* with discipline and transparency can offer the flexibility needed to innovate new products, that flexibility must be carefully balanced with strict *Shari'ah* governance and accurate juristic classification (*takyīf fiqhī*). Ultimately, if Islamic banking is to remain credible and sustainable over the long term, it cannot rely on technical loopholes alone; it must actively protect its ethical integrity and maintain public trust.

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