



Sharia Banking Policy: A Critical Study of Government Policies in the Development of Sharia Banks in Indonesia

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Abstract

Islamic banking in Indonesia has experienced significant development since the establishment of Bank Muamalat Indonesia in 1991. This article examines government policies that support the growth of Islamic banking through various regulations, such as Law No. 7/1992 and Law No. 10/1998, which open opportunities for the establishment of Islamic banks and conversion from conventional banks. However, the development of Islamic banks still faces various challenges, including limited public understanding, lack of supportive regulations, and lack of skilled human resources in this sector. This article also highlights the development strategy of Islamic banking which includes improving regulations, expanding networks, improving human resource competence, and socialization activities. The main goal of the development of Islamic banking is to provide banking services in accordance with sharia principles, meet the needs of people who do not accept the concept of interest, and support partnership-based businesses. In the end, consistency in the application of sharia principles and improving service quality is the key to the success of Islamic banking in Indonesia.

1. Introduction

Historically, Islamic banking was born from the womb of MUI, which was formally marked by the establishment of Bank Muamalat Indonesia (BMI) in 1991 (Syafii, I., & Harahap, I., 2020). BMI is the first Islamic bank that is said to be the golden child of the hard work of the Banking team formed by MUI. Islamic banks are increasingly experiencing rapid growth and development until now.

In the long term, the development of Islamic banks is expected (Syafii, I., & Harahap, I., 2020) to have high competitiveness while consistently adhering to Islamic values (Duryat, H. M., 2021). Duryat, H. M. (2021) states of being able to play a significant role and become a reliable banking institution in improving economic performance and people's welfare and (Fasa, M. I., 2013) to have the ability to compete globally with international financial operational standards with Islamic banks development strategies (Fasa, M. I., 2013).

In the last seven years since the enactment of the Law. No.7 of 1992 concerns banking and provides opportunities for establishing Islamic banks. The development of Islamic banks, in terms of the number of office

networks and the volume of business activities, is still not satisfactory. Therefore, the government wants to encourage the development of Islamic banks in Indonesia. To encourage the development of Islamic banks, it is carried out by paying attention to the fact that some Indonesian people are currently looking forward to a healthy and reliable Islamic banking system to accommodate their needs for banking services in accordance with sharia principles.

2. Methodology Research

The methods employed in this study are qualitative and descriptive. Nowadays, research that doesn't apply statistical procedures is often labeled as "qualitative," almost as though it's a mark of quality. The analysis and interpretation of qualitative research are heavily shaped by the power of language. In this study, the author will discuss the problem and propose solutions. Data was gathered from various sources of literature, making this research a qualitative literature review.

3. Results and Discussions

3.1 Results

After the amendment of the Banking Law with Law No. 10/1998, it experienced rapid growth and development. This rapid development has been primarily recorded since the issuance of Bank Indonesia regulations granting permission to open new Sharia banks and establish Sharia Business Units (UUS) (Setiawan, A. B., 2006).

Law No. 10 of 1998 concerning banking opens opportunities for anyone who will establish an Islamic bank or wants to convert from a conventional system to Sharia. The issuance of Law No. 10 of 1998 has its wisdom for the national banking world, where the government opens banking business activities based on Sharia principles. This accommodates the aspirations and needs that are developing in the community (Sunani, E., 2020).

The community is given the broadest opportunity to establish a bank based on the principles of Islamic banks, including the chance to convert from commercial banks based on conventional patterns to sharia patterns. From a macroeconomic perspective, the development of Islamic banks in Indonesia has excellent opportunities because of its wide market right with the majority of the country's population. Law No. 10 does not rule out the possibility for owners of state-owned banks, national private, and even foreign parties to open their Sharia branches in Indonesia. With the opening of this opportunity, it will increase the opportunities for financial transactions in the banking world, especially if there is a cooperative relationship between Islamic banks (Menanti, T., n.d.).

3.2 Discussions

3.2.1 Government Regulation

It is undeniable that government regulations have the greatest contribution to the development of Islamic banking in Indonesia (Utama, A. S., 2018). Briefly can be seen below:

- a. Pakto (October Package) 1988 allowed new banks to be established, resulting in the MUI Workshop: Participants agreed to establish Islamic banks immediately.
- b. Introduction of Dual banking system: BMI was established as a result of the annual meeting of MUI in August 1990
- c. Law No. 7/1992 on the establishment of profit-sharing banks
- d. Allowing banks to operate in a dual system: Law No. 10/1998, BI recognizes the existence of Islamic banks.
- e. Monetary policy based on sharia principles: (1) Law No.23/1999: BI regulates and supervises Islamic banking, (2) BI can set monetary policy with sharia principles, (3) Established BSM, (4)The first UUS was established, (5) BI establishes Islamic Banking R&D Team.
- f. Exit of Reg. Operational & Institutional: BI establishes institutional regulations for Islamic banking and the diary of PUAS (Sharia Interbank Money Market) & SWBI (Bank Indonesia Wadi'ah Certificate).

The above regulatory policies need to be guided in a synergistic direction so that it will create a *mutual* and sustainable understanding in creating competitive Islamic banks. The concept *of trias politika*, which is based on the value *of ta'awun*, can be applied in this case, where practitioners play the role of executives, then the government together with the MUI has a legislative function and academics with the MUI have a judicial function that always assesses its development (Hamzah, M., 2008).

3.2.2 Problems of the Development of Sharia Banks

Islamic banks have been officially introduced to the public since 1992, namely with the enactment of Law No. 7 of 1992 concerning banking. This law, which is further interpreted in various government provisions, has provided the widest opportunity for the opening of banks that operate with the principle of profit sharing/sharia. The development of Islamic banks to date still shows unencouraging growth, both in terms of network and business volume, compared to the growth of conventional banks. The small population of Islamic banks shows this.

Many challenges and problems are faced in the development of Islamic banking, especially related to implementing a new banking system. This system has a number of differences in principle from the dominant system and has developed rapidly in Indonesia.

Inappropriate Public Understanding of Sharia Bank Operational Activities

Because it is still in the early stages of development, it is understandable that at this time most people's understanding of the Islamic banking system and principles is still not right. Basically, the Islamic economic system is clear, namely prohibiting the practice of *riba* and the accumulation of wealth only to certain parties unfairly. However, in practical terms, the form of products and services, the basic principles of the relationship between banks and customers, as well as *halal* business methods in Islamic banks still need to be widely disseminated (Wardayati, S. M., 2011).

The difference in the characteristics of conventional bank products with Islamic banks has caused reluctance for banking service users. This reluctance is caused by, among other things, the loss of the opportunity to get a fixed income with interest from savings. Therefore, in general, it is necessary to inform that the placement of funds in Islamic banks can also provide competitive financial benefits. In addition, one of the special characteristics of the relationship between banks and customers in the Islamic banking system is the existence of moral force and guidance for high business ethics from all parties.

Applicable Banking Regulations Have Not Fully Accommodated the Operations of Sharia Banks

Due to a number of differences in the implementation of operations between Islamic banks and conventional banks, Islamic banking provisions need to be adjusted to meet Islamic provisions so that Islamic banks can operate effectively and efficiently. These provisions include, among others, things that govern: (1) Instruments needed to address liquidity issues, (2) Monetary instruments that are in accordance with sharia principles for the purpose of carrying out the central bank's duties, (3) Accounting, auditing, and reporting standards and, (3) Provisions that regulate the principle of prudence. These provisions are necessary so that Islamic banking becomes an element of the monetary system that can carry out its functions properly (Antonio, M. S., Sanrego, Y. D., & Taufiq, M. (2012).

Sharia Bank Office Network is Not Extensive

The development of the Islamic bank office network is needed in order to expand the range of services to the community. In addition, the lack of the number of existing Islamic banks also hinders the development of cooperation between Islamic banks. Cooperation that is indispensable includes the placement of funds between banks in terms of overcoming liquidity problems. Islamic banks need to operate on an economic scale as a business entity. Because the number of bank office networks is wide and will increase business efficiency (Syukron, A., 2013).

Human Resources with Expertise in Sharia Banks Are Still Scarce

The obstacles in the field of human resources in the development of Islamic banking are caused by the fact that this system has not been developed for a long time. In addition, academic and training institutions in this field are very limited so that there are still very few educated and experienced personnel in the field of Islamic banking, both from the implementing bank side and from the central bank (bank supervisors and researchers). The development of human resources in the field of Islamic banking is very necessary because the success of the development of Islamic banks at the micro level is highly determined by the quality of management and the level of knowledge and skills of bank managers. Human resources in the field of Islamic banking must have extensive knowledge in the banking sector, understand the implementation of sharia principles in banking practice, and have a strong commitment to apply them consistently (Abidin, Z., 2011).

For this reason, Bank Indonesia has programmed the "Strengthening of Human Resources (SDI) of Sharia Banks" through various activities: 1) Conducting training, 2) Conducting studies/research, 3) Facilitating practical work opportunities, internships, and research, 4) Providing technical assistance to improve the management competence of Islamic banks (Machmud, A., Hardani, W., Hayati, Y. S., & Sallama, N. I., 2010).

Problem Legal/ Struktural

First, there is no alignment of vision and lack of coordination between the government and authorities in the development of Islamic banking. Second, regulation and supervision are still not optimal. Third, the lack of government support and support for the development of Islamic banking, especially when compared to neighboring countries (Rusydia, A. S., 2016).

3.2.3 Development Objectives of Sharia Banks

The purpose of the development of Islamic banking is to fulfill the following things:

1. The Need for Banking Services for People Who Can't Receive the Concept of Interest
With the implementation of the Islamic banking system side by side with the Islamic banking system side by side with the conventional banking system, the mobilization of public funds can be carried out widely, especially from segments of society that the conventional banking system has not touched.
2. Financing Opportunities for Business Development Based on Partnership Principles
In this principle, the concept applied is a harmonious investor relationship. As for the conventional system, the concept applied is an antagonistic debtor-to-creditor relationship.
3. The Need for Superior Banking Products and Services
The Islamic banking system has several comparative advantages in the form of the elimination of continuous interest charges (Perpetual interest effect), limiting unproductive, speculative activities, and financing shown in businesses that pay attention to moral elements (halal) (Antonio, M. S., Sanrego, Y. D., & Taufiq, M., 2012).

3.2.4 Sharia Bank Development Strategy

The development strategy of Islamic banks is directed at improving business competencies that are on par with conventional banking, which is carried out comprehensively by analyzing the strengths and weaknesses of Islamic banking in Indonesia today. Islamic banks use a profit-sharing system like buying and selling products, which is an agreement to exchange objects or goods that have value voluntarily between two parties who receive the goods, and the other party accepts according to the agreement or provisions that Sharia has justified' and agreed (Mukhlisin, A., & Saipudin, S., 2017). The efforts made by the Islamic bank are through increasing human resource expertise, improving provisions, and socialization programs. The main focus of the Islamic banking system development strategy includes (Rama, A., 2015):

1. Improvement of Terms
Efforts are made to adjust the basic tools of the Central Bank Law, the Banking Law and the preparation of tools to support the operational activities of Islamic banks. In Law No. 10 of 1998 concerning amendments to Law No. 7 of 1992 concerning banking, articles have been applied that open up wider development opportunities for Islamic banks. Articles in the law related to sharia will then be included in the decrees of the Board of Directors of Bank Indonesia that regulate all operational activities of Islamic banks.
2. Sharia Bank Network Development
The development of the Islamic banking network is mainly shown to provide wider access to the public in obtaining Islamic bank services. Formulate policies that support the development of sharia banks through legal instruments and laws. The effectiveness and institutional efficiency of sharia banks, such as the Sharia Supervisory Board, must always be improved. The development of the Islamic banking network is carried out through the following ways: 1) Improving the quality of Islamic commercial banks and Islamic People's Credit Banks (BPRS) that have been operating, 2) Changes in the business activities of conventional banks (*total conversion*) that have good business conditions and are interested in carrying out bank business activities based on sharia principles, 3) Opening of sharia branch offices (*full branch*)) for conventional banks that have good business conditions and are interested in carrying out bank business activities based on sharia principles.
3. Development of Monetary Devices
The preparation of monetary instruments is carried out in order to support monetary policy and business activities of Islamic banks. In relation to the business activities of Islamic banks, the formation of this tool is expected to help the development of the money market between Islamic banks.
4. Implementer of Sharia Banking Socialization Activities
The socialization activities carried out aim to provide complete and correct information about Islamic banking business activities to the public, be it entrepreneurs, bankers, and other communities.

5. Education

This educational activity is a fundamental strategy to foster an understanding of sharia economics in general and sharia banks in particular, for all levels of society including the young generation and children. This educational activity must be a joint strategy of both the government through the Ministry of Education and Culture in the preparation of national education programs. Filled with demand, people's enthusiasm to use Islamic banking products and services is increasing, a new image that is more universal and inclusive and the industry places Islamic banks as an alternative banking system that can be enjoyed by the public without exception.

6. Consistency

Consistency in carrying out sharia principles must be firmly held by sharia bank institutions. Don't be tempted to deviate the mechanism of sharia products in a non-sharia direction just because you want to acquire customers quickly. In the short term, this effort may bring satisfactory results, but it will be a stumbling block in the long term, thus harming the development of the sharia banking system. Consistently applying sharia principles is one of the key strategies in developing sharia banks (Rama, A., 2015).

7. Improved service.

Islamic banking needs to continue to improve the quality of its services. The principle of friendly, easy, fast and cheap service must be the trademark of Islamic banks. Friendly in serving, easy and fast in the process, and cheap in cost (administration). Likewise, efforts to facilitate access to information and take money or savings must be improved (Ja'far, A. K., 2016).

3.2.5 Stages and Objectives of the Development of Sharia Banks

To support the success of the development strategy that has been set, the government considers it necessary to prepare a clear and directed agenda for the development of Islamic banking through several stages. The steps taken include the following:

1. Forming a steering committee, an expert committee, and a working committee on the development of Islamic banking
2. Investing in existing provisions and developing more complete and needed provisions in order to form a conducive Islamic banking climate.
3. Assisting in the implementation of human resource education and training activities is the backbone of the success of the Islamic banking development program.
4. Carry out sharia banking socialization activities to banks, the general public and scholars (Candrakusuma, M., 2018).

Bank Indonesia has determined four stages of achievement in the development of national Islamic banking. The first stage (2002-2004), which is the laying of a strong development foundation for the growth of the Islamic banking industry, the second stage (2005-2009), namely the stage of strengthening the industry, increasing competitiveness, operational efficiency, product specifications, as well as the competence and professionalism of the Islamic banking SDI. Furthermore, the third stage (2010-2012) is the stage to improve the quality of Islamic banking services and operations in accordance with international financial standards and service quality. Then the fourth (2013-2015), which is the stage where the Islamic banking industry has reached a significant share to contribute to the national economic system.

4. Conclusion

The problems faced in the development of Islamic banking include: 1) Applicable Banking Regulations Have Not Fully Accommodated the Operations of Islamic Banks, 2) Inaccurate Public Understanding of Islamic Bank Operational Activities, 3) The Network of Sharia Bank Offices is Not Extensive, 4) Human Resources with Expertise in Islamic Banks Are Still Small. The purpose of the development of Islamic banking is to fulfill the following things: 1) The Need for Banking Services for People Who Cannot Receive the Interest Concept, 2) Financing Opportunities for Business Development Based on Partnership Principles, 3) The Need for Superior Banking Products and Services. The development strategy of Islamic banks is directed to improve business competencies that are on par with conventional banking which is carried out comprehensively by referring to the analysis of the strengths and weaknesses of Islamic banking in Indonesia today. The main focus of the Islamic banking system development strategy includes Improving Provisions, Developing Islamic Bank Networks, Developing Monetary Instruments, and Implementing Sharia Banking Socialization Activities.

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