

## **THE PROSPECT OF SHARIA BANKING IN INDONESIA (OPPORTUNITIES, CHALLENGES AND SOLUTIONS)**

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### **ABSTRACT**

As the country with the largest Muslim population in the world, Indonesia should be the pioneer and mecca of Islamic finance development in the world. This is not an 'impossible dream' because the potential of Indonesia to become a global player of Islamic finance is very large, including: (i) the large number of Muslim citizens to be potential customers of the Islamic finance industry; (ii) a bright economic outlook, reflected by relatively high economic growth (range 6.0% -6.5%) supported by solid economic; (iii) increasing Indonesia's sovereign credit rating to investment grade that will increase investor interest in investing in domestic financial sector, including sharia financial industry; and (iv) have abundant natural resources that can serve as underlying transactions of the sharia financial industry. This paper is the writing of exploration, therefore the nature of writing is descriptive. The data used is obtained from the research library (library research) in the form of books, theses, journals, papers, magazines, and all information related to the development of Islamic banking, I will collect and describe in the discussion, from the exposure writer will try to make a picture about the prospect of sharia banking in Indonesia.

**Keyword:** Sharia Banking, Islamic Product, Performance, Prospect, Challenges, Solutions, and Indonesia.

### **1.1 INTRODUCTION**

The idea and thought of the establishment of sharia banking in Indonesia originated from a serious discussion on the status of Islam in the late 1960s represented by Islamic groups and Indonesian Muslim intellectuals (Harahap and Basri, 2004: 39). According to Kara (2005: 80) views of the Islamic Ummah about the status of prohibited interest in conventional banking is divided into three groups: (i) the view that bank interest is the same as usury so that the law is haram either a little or a lot; (ii) the view that bank interest is not the same as usury so it is legitimate and justified to be practiced; (iii) the view which says that usury belongs to the category of *mutasyabihat*, namely the case whose legal status is still vague and therefore should not be practiced. These three views of religion as a reflection of the views of Islamic religious

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groups and Islamic intellectuals of Indonesia in view and decide the legal status of interest applicable to banks in Indonesia.

Interestingly, although the views of Islamic religious groups and Muslim intellectuals of Indonesia are different, it does not diminish their enthusiasm and movement to establish financial and banking institutions in harmony with Islamic principles and teachings in Indonesia. In this context, Antonio (1999: 10) says that differences of opinion among them do not diminish the spirit of their struggle to establish financial institutions and sharia banking in Indonesia, so established Bank Muamalat Indonesia in 1992 as the first sharia pure Islamic sharia through the process the long debate. It has also become one of its own uniqueness in the long history of Islamic finance and banking industry travel in Indonesia.

As the country with the largest Muslim population in the world, Indonesia should be the pioneer and mecca of Islamic finance development in the world. This is not an 'impossible dream' because the potential of Indonesia to become a global player of Islamic finance is very large, including: (i) the large number of Muslim citizens to be potential customers of the Islamic finance industry; (ii) a bright economic outlook, reflected by relatively high economic growth (range 6.0% -6.5%) supported by solid economic; (iii) increasing Indonesia's sovereign credit rating to investment grade that will increase investor interest in investing in domestic financial sector, including sharia financial industry; and (iv) have abundant natural resources that can serve as underlying transactions of the sharia financial industry (Alamsyah: 2015: 01).

A number of advantages above as reaffirming to the public that the presence of sharia financial institutions and banking clearly has a very bright and promising prospects and of course its presence not only become a financial alternative for the majority Muslim community of Indonesia. More than that, its presence must be made as the first and first choice by referring to the competitive advantage it has. The superiority of sharia banking is theoretically to be proved practically so that the Islamic values that become the spirit of sharia banking activities can be felt directly benefit not only for Muslims but for other people. Syariah banking is not intended solely for Muslims but for other people because the Islamic value of Islam applies to all people and groups in the world.

How real opportunities, potential and prospects for sharia banking in the future will be the focus of the review in this short paper. The reviews in this paper are more descriptive-narrative based on credible and scientifically accountable data and references.

## **1.2 Theoretical Review of Sharia Banking**

The development of sharia banking in Indonesia is practiced by using dual-banking system model or double banking system which is tried to be aligned with sharia banking development program in Indonesia<sup>1</sup>. This model is projected to provide more flexible banking services and kampatebel with the needs of Indonesian society profile both Muslim and non-Muslim. With the choice of such models, the presence of sharia banking system in tandem with the conventional banking system is run to support the collection of public funds broadly and large to improve financing capabilities of various sectors of the country's economy. Mulya E. Siregar and Nasirwan Ilyas said:

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<sup>1</sup> See <http://www.ojk.go.id/id/kanal/syariah/about-syariah/Pages/Banan-Syariah.aspx>

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*"In Indonesia, the development of Islamic banking is based on two considerations. Firstly, there is a large niche market in Indonesia, which refuses to be serviced and catered by conventional banks, because of Islamic principles. The introduction of an Islamic banking system will assist the banking system as a whole to effectively mobilize funds in this market. Secondly, the Islamic banking is an alternative system, which could be implemented as one of the banking-restructuring programs initiated by the Indonesian government."* (Siregar, dan Ilyas, 2000: 189).

In the Indonesian context, there are at least three forms of sharia banking: (i) Sharia Commercial Bank, (ii) Sharia Business Unit, and (iii) Sharia Financing Bank). The Law Number 21 of 2008 concerning Sharia Banking in Article 1 paragraph (8) defines Sharia Commercial Bank as a Sharia Bank which in their financial activities provides services on payment traffic based on sharia principles.<sup>2</sup> Sharia Business Unit is a part of Conventional Commercial Bank whose main function is as a hand gap in conducting financial activities based on sharia principles, or a work unit in a branch office of a bank domiciled abroad that runs conventional financial activities that serve as the main office rather than sharia branch offices and or parts of sharia.<sup>3</sup> Meanwhile, Shariah People Financing Bank is a sharia bank that in their financial activities does not provide services on payment traffic.<sup>4</sup>

Theoretically, there are five basic concepts of contract applicable in the financial system and sharia banking in Indonesia. Through the concept of this contract various types and forms of sharia banking products and services can be well understood. All five are savings, profit sharing, business with profit orientation, rent and service (Muhammad Syafie Antonio, 1999: 25). In summary, the five sharia contracts are as follows:

### **1. The principle of Deposit (*wadi'ah*)**

The principle of saving is a facility provided by sharia banking to those who have excess assets to store their property in the form of *wadi'ah* contract, *wadi'ah* facilities are provided for investment purposes oriented to gain benefits such as savings or deposits. In conventional banking, *wadi'ah* is the same as deposits.

### **2. The principle of Profit-Loss Cooperation (*syirkah*)**

This principle includes the stage of sharing of business results between investors and employers. This revenue sharing can be done between the bank and the customer, or between the bank and the borrower. The types and forms of products based on sharia principles are *mudharabah* and *musyarakah*. In addition, *mudharabah* principles may also be used for financing and financing products, while *musyarakah* is more suitable for financing products.

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<sup>2</sup> According to Law no. 21 of 2008 concerning Syariah Banking Article 1 paragraph (7) explained that Sharia Bank is a bank whose financial activity is based on sharia principles and based on its form is divided into Sharia Commercial Bank and Sharia Rural Bank.

<sup>3</sup> See Law No.21 Year 2008 on Sharia Banking article 1 paragraph (10).

<sup>4</sup> See Law no. 21 of 2008 concerning Sharia Banking article 1 paragraph (9).

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**3. Principles of Sale and Purchase (*tijarah*)**

This principle is a system that uses a method of buying and selling, in which the bank buys the first item required by the customer or represents the customer as the representative of the bank to purchase the desired goods based on the bank's power, then the bank sells the goods to the customer at the purchase price coupled with profit (*margin*).

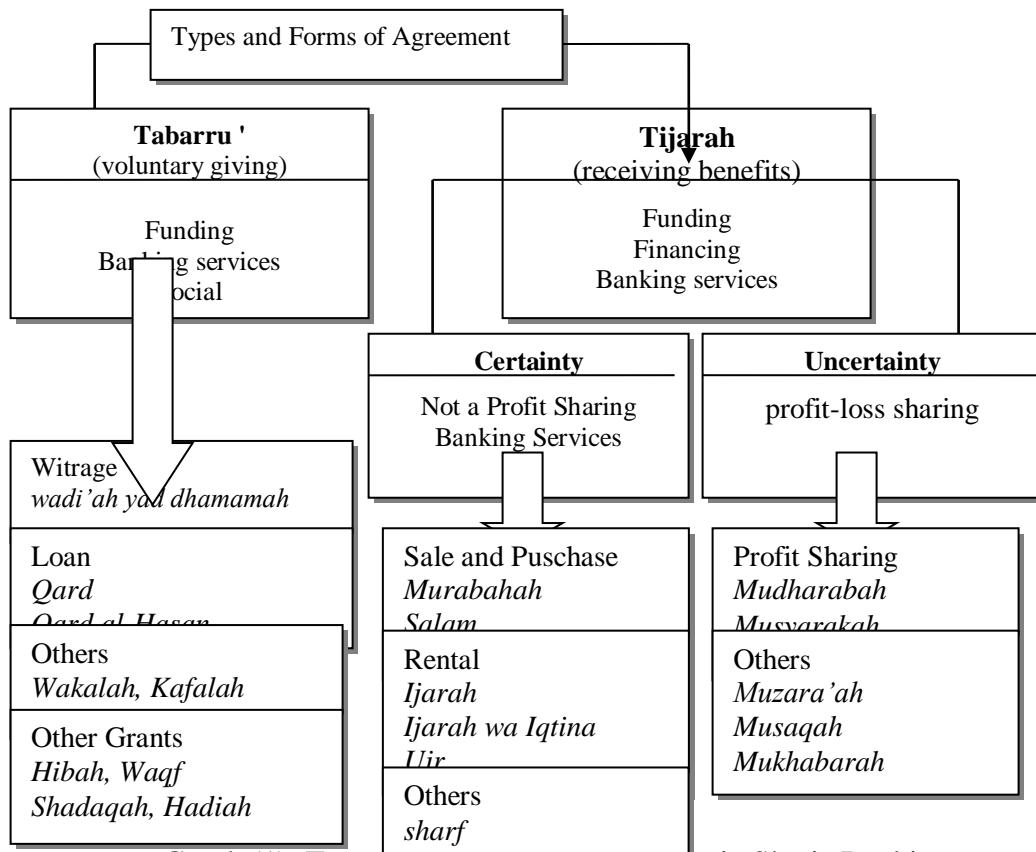
**4. Rental or Wage Principle (*ijarah*)**

This principle is divided into two forms. First, *ijarah*, ordinary leases such as tractor rentals and other leasing instruments (*operating lease*). In banking, the bank may purchase the (*equipment*) required by the customer to rent in a certain period and approved by the customer. Second, *bai 'al-takjiri* or *ijarah al-muntahiya bit-tamlik* is a lease agreement that ends with the ownership of the goods by the tenant through the contract of sale.

**5. Principle of Reverence (*akhz al-ajr ala al-jah*)**

Is taking a reward for a good job. This principle covers the whole service. Sharia products based on sharia principles include Bank Guarantee, Clearing, Collection, transfer service, and others. Sharia is based on the concept of *akhz al-ajr ala al-jah*.

With reference to the five principles of sharia contracts above, the type and form of contract in the Islamic banking in Indonesia is divided into two: (i) financial transactions for profit or *tijarah*, and (ii) financial transactions with no profit-oriented or *tabarru'*. Transactions earned profit divided again: (i) containing natural certainty contracts (*natural certainty contracts/NCC*), is a contract that does not issue on the results (buy and rent), and (ii) containing natural uncertainty contracts (*natural uncertainty contract/NUC*), namely the contract with the principle of profit-loss cooperation. The NCC transaction is based on exchange theory, while NUC is based on mixing theory. All transactions that are oriented to profit include financing and financing, whereas transactions that are not intended to gain profit include funding, services and other social activities.



Graph (1): Types and Forms of Agreement in Sharia Banking

Source: modified by author from Karim (2004) Ascarya (2007).

### 1.3 The Development of Syariah Banking

Previously, Bank Indonesia was the single banking regulator in Indonesia, where all policies issued must be complied with to accelerate the program and its main target in stabilizing the economy, finance and monetary in Indonesia. Practically, all banking activities in Indonesia are under the authority of this authority before finally delegated some of its authority to a new institution called the Financial Services Authority.

Not much different from Bank Indonesia, the Financial Services Authority under the Sharia Banking Department pays serious and serious attention in encouraging the development of sharia banking. This spirit is based on the belief that sharia banking will bring '*maslahat*' for the improvement of economy and equity of public welfare. *First*, sharia banks are closer to the real sector because the products offered, especially in financing, always use the *underlying* transactions in the real sector so that their impact is more real in driving economic growth. *Secondly*, there are no speculative products (*gharar*) that have a strong endurance and tested the toughness of the *direct hit* global financial crisis. In macro, sharia banking can provide the support for the creation of stability of the financial system and national economy. *Third*, profit-loss sharing system that becomes the spirit of sharia banking will bring fairer benefits for all

parties, either for the owner of the fund as the depositor, the entrepreneur as the debtor or the bank as the fund manager (Alamsyah: 2012: 01).

So that in 2015, the sharia banking industry in Indonesia shows a good progressive and progressive both in terms of quantity and quality, although experiencing a slight slowdown. These developments include Number of Sharia Commercial Banks, Sharia Business Unit, Sharia Rural Banks, Office Networks, Assets, Asset Development, Market Share, Fundraising, Financing and others as in the following graph:<sup>5</sup>

Hints	2011	2012	2013	2014	Mac 2015	Jun 2015	Sep 2015
Sharia Commercial Bank	11	11	11	12	12	12	12
Sharia Business Unit	24	24	23	22	22	22	22
BPRS number	155	158	163	163	162	162	162
Office network (BUS + UUS)	1.737	2.262	2.588	2.517	2.463	2.448	2.401
Assets (Trillion)	145.47	195.02	242.28	272.34	268.36	273.49	282.16
Growth	49%	34%	24%	12.41%	11.39%	8.57%	9.57%
Market share	3.39%	4.58%	4.89%	4.85%	4.68%	4.61%	4.59%
Funding (Trillion)	115.41	147.51	183.53	217.86	212.99	213.48	219.31
Financing (Trillion)	102.66	147.51	184.12	199.30	200.71	206.06	208.14

Graph (2): The development of sharia banking in Indonesia

Source: Department of Islamic Banking, Financial Services Authority 2015

With reference to the graph above, the development of sharia banking industry in Indonesia can be described in sequence as follows: The number of Sharia Commercial Banks as many as 12, Sharia Business Unit as much as 22, the number of Sharia Banks 162, the total number of offices of both Sharia and Syariah Business Unit 2,401 was reduced from the previous year 2,517. The total assets of sharia banks, sharia business units and shariah banks reached 282.16 trillion in 2015 or 9.57% (yoY), lower than the previous year's 12.41% (yoY). Because of the slowing down of sharia banking assets, the market share of sharia banks in 2015 is lower, at 4.59% from 4.85% in 2014. Meanwhile, at the end of 2015, the financing of Sharia Commercial Bank and Sharia Business Unit amounted to Rp 208.14 trillion, while the collection reached Rp 219.31 trillion.

<sup>5</sup> Department of Islamic Banking, RI Financial Services Authority. Roadmap of Indonesian Sharia Banking 2015-2019. Paper presented at the Shariah Supervisor Board's Annual Meeting in Indonesia, 16-18 December 2015, Ibis Hotel Bandung.

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**1.4. Factors Supporting the Development of Syariah Banking**

Against several factors that participate to encourage the trend of sharia banking development movement in Indonesia. The development of Islamic finance and banking industry as well as a definite answer to the value of the benefits of the presence of sharia-based financial institutions in the midst of life of the majority Muslim community of Indonesia. This driving factor is of course worth our pride in considering the presence of financial institutions and sharia banking in Indonesia is relatively new compared to conventional banking.

**1.4.1. Closer to the real sector**

It should be admitted that sharia banking is closer to the real sector because the products offered, especially in financing, always use the *underlying* transactions in the real sector so that the impact is more evident in encouraging the economic growth of the community. This pro-economic character of the people is very much in line with the profile of Indonesian people who are still below the poverty line and very difficult to access the facilities offered by the banking system. The presence of sharia banking that is more pro-the real sector becomes a competitive force owned by sharia banking compared with conventional banking.

**1.4.2 Products of usury and gharar**

Profile of products and services offered by sharia banking clearly there are no products that are speculative (*gharar*) so have a strong endurance and tested toughness from *direct hit* global financial crisis. In macro, sharia banking can provide the support for the creation of stability of the financial system and national economy. Riba and gharar are philosophically and practically the distinguishing entities of sharia and conventional banking, and these differences not only apply normatively-religiously, but also apply to the practical-economic level proven to withstand the onslaught of the world economic and macro-climate crisis. The economic crisis in 1997 became the real evidence of the resilience of sharia-based economic system based on this real sector.

**1.4.3 Share profit and loss**

Besides based on the philosophy of anti-riba and gharar inherent in sharia banking, profit-loss sharing also becomes the real sharia banking spirit that will bring more equitable benefit for all parties, both for the owner of the fund as the depositor, entrepreneurs as the debtor or the bank as the fund manager. During this time, the activities of financial institutions and banks tend to side with one party, in this case the owner of capital, on the contrary the debtor is always in a position that is less profitable. Through this business sharing model all parties involved in business activities have equal positions and responsibilities in accordance with the ownership portion they possess. Thus, practical business like this as closer and more in line with the teachings of Islam held by the majority of Indonesia's population.

**1.4.4 Socialization and education of sharia finance**

Currently being intensively conducted education and socialization about the Islamic banking system so it is expected to increase public awareness and interest in sharia banking with the principle of justice that became an advantage of the Islamic banking system. The most distinguishing aspect of conventional and sharia systems is the compliance of sharia (*shariah*

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*compliance)* compliance. This aspect is what makes sharia banking has advantages of conventional banking operations, because it ensures the application of justice values for economic actors, and of course fulfillment of sharia values are more intact. The advantages of this sharia system are encouraged by the massive socialization of excellence and toughness done by sharia banks which at the same time by moving to encourage the development of sharia financial industry in Indonesia.

#### **1.4.5 Variations of technology-based products and services**

Interestingly and at the same time, Islamic banks in Indonesia have begun to improve the quality of service in order to parallel the conventional banks. Access to information technology such as ATM, mobile banking and internet banking become the focus for the development of service quality from sharia banks. Practical, innovative product and service development has become an important focus for sharia banks in order to compete with conventional banks more competitively. Currently the competition in the banking industry is very tight, sharia banks can no longer just rely on standard products to attract customers. Sophistication and technological advantages can be put to good use for the development of current and future sharia business strategy.

### **1.5. Challenges of Sharia Banking in Indonesia**

In the midst of the rapid development of the sharia banking industry, it is necessary to realize that there are still some challenges to be solved wisely in order that sharia banking can improve the quality of its growth and maintain its acceleration on an ongoing basis and provide exceptional value for all groups.

#### **1.5.1 Human Resources**

The main issue of Islamic banking development in Indonesia lies in the adherence of sharia principles. Sharia banking is run by following sharia principles and meeting market demands and the customer's needs have actually entered a bright and lucrative area, yet it is not well conveyed due to the limited human resources. Human resource expertise in the sharia banking industry is different from conventional banking. Human resources in sharia banking must have comprehensive expertise in the field of sharia science and at the same time have expertise in the field of finance and banking. Attempts for the fulfillment of feasibility in both aspects of science require more strenuous and long-term efforts (Divanna, and Sreih, 2009: 158-159).

#### **1.5.2 An established Monitoring System**

Sharia financial institutions and banks do not have special supervisory institutions to guard day to day practices on every banking activity to protect customers. Due to differences in principles and operations in conventional banking, sharia banking operations require a more stringent surveillance system following the collection and disbursement of customer funds. Banking supervision, research and inspection, and even direct participation in running a company is an important component in sharia banking development projects as the greater risk lies in the management of sharia banking. In fact, the majority of Islamic countries that run the Islamic banking system have not found a standard supervisory guidance, making it difficult for central

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banks to supervise the overall activity of the sharia finance and banking industry (Awaida, 1998, Grassa, 2013).

### **1.5.3 Internal Audit**

Since sharia banking is run by a profit-sharing system, it is possible to not have the same responsibilities and regulations as conventional banking, especially in maximizing existing capital. Differences in management and financial activities in sharia banking require a different supervision system with conventional banking. In other words, the Islamic banking system runs new and unproven financial activities through the management of stagnant assets or illiquid assets, and therefore may require a larger profit-generating system than conventional banking. In fact, in some cases the burden of additional weight is placed on Islamic banking (Archer, Karim, and Sundararajan, 2010).

### **1.5.4 Mature management**

The absence of established management in the majority of sharia financial and banking institutions has a negative effect on the achievements of the sharia banking industry, and so will make the survival of this sharia industry impossible. In fact, good management occupies the most important place in the sharia financial industry (Alnasser, 2012). The establishment of an internationally recognized kitchen of sharia financial and banking institutions is also a challenge in today's sharia banking development process.

### **1.5.5 Traditional financial instruments that do not conform to sharia**

One of the most prominent challenges facing the sharia financial and banking industry is the discrepancy in traditional financial instruments with sharia principles. For example, sharia banking should not take care of cash funds as it is with traditional banking products when investing in the interest of cash or state securities products. In addition, it also has no sharia alternative to the capital market, especially in the primary and secondary markets (El-Qorchi, 2005). These factors lead to sharia financial and banking instruments with other banks that can manage assets well. Sharia banking products and services that differ from products and services provided by conventional banking, both in transactions and other activities therefore require the approval of sharia from the sharia supervisory board. This is the main difference between conventional banking institutions and sharia banking operations (Grassa, 2013).

### **1.5.6 Conventional banking competition**

The biggest challenge in sharia banking is to compete with the more advanced and more developed conventional banking industry of sharia banking. Sharia banking actors are important to know how they develop their products and services so that they can successfully engage customers in the market, especially with regard to areas where both sharia and conventional banking can run the same product development strategy, or even different strategies.

Most individuals and investors demand maximum guaranteed returns on invested funds applicable to conventional banks based on fixed interest payments, which are not justified in sharia banking (Chiu and Newberger, 2006).

## **1.6. Opportunities and Prospects of Syariah Banking in Indonesia**

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The crucial challenges and constraints faced by sharia banking do not necessarily close the opportunity for sharia banks to move forward. These barriers should serve as a source of encouragement in working more optimally and optimally given the opportunities and expectations of the development of sharia banking industry in Indonesia is large enough when referring to the following cases:

**1.6.1. Muslim majority population.**

Quantity of this population can be used as a prospective land to be used as an object of Islamic banking development and market share. The capacity of the Muslim population is not only the object of the market but also the object of the Islamization of the economy (Sharia Bank) so that with more people who have awareness about Islamic economics, more and more people become sharia bank customers.

**1.6.2. Increased religiosity of Indonesian Muslim community**

If during this time many people, especially the religious segment of society are reluctant to keep funds in the bank because of the usury in the form of interest. So with the presence of Islamic banks then the segment of the community finally has a solution to save their funds are no longer under the pillow, because the emergency conditions that have been the basis of Muslim society to save in conventional banks have disappeared with the presence of Islamic banks in Indonesia. So if there are still people who argue saving in a conventional bank may be religious because of emergency situations, then it is a false argument. Akad-akad muamalah which became the foundation in every transaction in Islamic banking shows that every transaction is always with the principles of sharia.

**1.6.3. The system is more just and profitable**

The sharia banking system is more equitable both from the customer's aspect of the savers and borrower's customers. Today's savers customers no longer need to fear the funds are lost as during the 1997 crisis where many banks were forced to liquidate, because Islamic banks in every activity are always based on the real sector. And the revenue share can be bigger than the interest given by conventional bank, if the share given by big borrower customers then the share given to the customer of the savers will be great also. So this system will prove to be more just and reassuring for savers customers.

**1.6.4 Strong regulatory support**

With the birth of Law no. 21 year 2008 about sharia banking, sharia banking has legislation as legal umbrella in sharia banking operational in Indonesia. During this constraint in the development of sharia banking is the absence of a separate legal umbrella that specifically regulates the Islamic banking. If we do a flashback of history from the beginning of the establishment of Islamic banks in Indonesia in 1992, at that time the term sharia bank has not been recognized in the banking system in Indonesia. It's just that time sharia banks are accommodated with the recognition of the bank with the principle of profit sharing in Law no. 7 of 1992, which resulted in the development of sharia banking at such a time frame is very slow.

**1.6.4 Support from sharia regulators**

Shariah regulators are referred to here is the National Sharia Council because all the products of fatwa is necessarily a reference for sharia banking actors in Indonesia. The National Sharia Council is an autonomous institution under the interim MUI to go to its bank or to an Islamic financial institution through the Sharia Supervisory Board. Of course this DPS must perform activities that are in line with the assignment of the DSN. Others that the DPS is in charge of banking products or other sharia financial institutions are really in accordance with the Islamic Sharia and in accordance with the fatwa of DSN. The Shariah fatwa of this institution would be a field road for the development of all activities related to sharia banking which is expected to give the best performance in sharia banking in the future.

### **1.7. Analysis Method**

Writing this paper is the writing of exploration, therefore the nature of writing is descriptive. The data used is obtained from the research library (*library research*) in the form of books, theses, journals, papers, magazines, and all information related to the development of Islamic banking, I will collect and describe in the discussion, from the exposure writer will try to make a picture about the prospect of sharia banking in Indonesia.

### **1.8 Findings and Advice**

#### **1.8.1 Findings**

Indonesia is a country with the largest Muslim population in the world. The majority of the Muslim population make Indonesia a potential market in the development of Islamic finance. One that is now beginning to grow rapidly that is with the banks that operational activities using the principles of sharia. This sharia banking institution began to flatten out and reveal its identity amid the many conventional banks that exist. Syariah banking in Indonesia is projected to increase rapidly in line with the increasing rate of institutional expansion and accelerated growth of sharia banking assets are very high.

The basic principles of sharia that differentiate Islamic banks from conventional banks are riba free, gharar free, free tadlis, free maisir, halal and amanah objects are very relevant to the profile of the majority Muslim community of Indonesia. These values become the competitive power of Islamic banking which at the same time is not owned by conventional banking. The strengthening of the awareness of Indonesian Muslims also bodes well for the future of sharia industry in Indonesia. And most importantly emphasized is that Islamic banking is not solely intended for the Muslim community, but also non-Muslims considering the Islamic Sharia actually contains universal value and can be enjoyed by all groups / mankind in this world.

In addition, in Indonesia has the advantage of the structure of Islamic financial development is the regulation where the authority to issue Islamic financial fatwa centered on an independent institution namely the National Sharia Council of the Indonesian Ulema Council (MUI) is different from in other countries fatwas can be issued by individual scholars so the possibility of a difference regulation each other greater. The National Sharia Council-Majelis Ulama Indonesia (DSN-MUI) was formed in order to realize the aspirations of Muslims regarding economic issues and encourage the application of Islamic teachings in the field of economy / finance which is implemented in accordance with the guidance of Islamic Sharia.

The establishment of the DSN-MUI itself is the step of efficiency and coordination of the scholars in responding to issues related to economic / financial issues. In addition to the National Sharia Board-MUI other independent institutions that contribute in sharia banking activities is the Sharia Supervisory Board (DPS). Sharia supervisory board is an independent institution in sharia banks whose main function is to supervise Shariah compliance in sharia bank operations. The duties and functions and the existence of sharia supervisory board in sharia banks have legal basis both from the fiqh side and banking law in Indonesia.

Financial Services Authority as the regulator of the banking in Indonesia is very supportive of the development of Islamic banking, because in macro development of Bank Syariah can give the support of the creation of stability of financial system and national economy. Here the role of all instruments in the operation of a banking, especially the regulator, namely Bank Indonesia (BI), controller (sharia advisor) in the National Sharia Board (DSN) and Sharia Supervisory Board (DPS) Majelis Ulama Indonesia and management of banking operations become important to improve the development and performance of sharia banking in Indonesia. The synergy of all these instruments will result in a system that provides value to the national banking system, even the national economy in the future. And in time will affect the realization of economic justice and prosperous society.

In sharia banking the profit sharing system will bring justice benefit for all parties of sharia banking both for the owner of the fund as the depositor, the entrepreneur as the debtor or from the bank as the fund manager. The socialization and educational activities of sharia banking are supported by Bank Indonesia through the “iB campaign” program. However, the current role of Bank Indonesia is reduced by the transfer of regulatory and supervisory authority of banks (including sharia banking) to the Financial Services Authority (OJK).

With these advantages, sharia banking has enormous potential to increase the number of new customers and continue to increase its assets. Syariah banking is not only interested by Muslims, but non-Muslims are also interested. Non-Muslims are interested of course because they know the benefits of Islamic banking. Therefore sharia banking should continue to improve the quality of its services and products. In addition, Islamic banking must continue to make the introduction of its products due to many who do not know the product and the benefits of sharia banking. If this is done, it is not impossible that sharia banks will be aligned with conventional banks, and this is not impossible to do together to achieve the goals to be achieved.

### **1.8.2 Suggestions**

To the findings of developmental dynamics and projected development of Islamic banking in Indonesia in the future it is important to follow up the following cases:

**1). Strengthening of human resources.** Limited human resources who understand the principles of Islamic economics and other financial mastery is the fact that can not be denied. The facts say that those who are placed as sharia bankers are those whose working environment has a second position great compared to conventional banks. Banking management considers that employees who work in sharia are sufficient only with capitalizing appearance and a little religious knowledge. Though ideally sharia banking industry players are those who have the best skills because to run the finances with the principles of sharia requires a better understanding and skills. Therefore, Bank Indonesia has asked banks to put their best people in sharia industry.

2). **Government alignment.** There is a strong impression of the government's side in the development of sharia banking industry. One example is the discussion of the revision of sharia law that has no signs until now so there is no regulation for Islamic financing. In addition, the policy of the planned transfer of haj funds from conventional banks to sharia banks has not been implemented while it can add capital structure to the sharia banking industry. Without government intervention, it will be difficult to increase the sharia *market share* from conventional commercial banks, moreover beating the conventional banking *market share*.

3). **Variations of products and services.** Variations and alternatives of choice of products and services offered by sharia banking become one of the performance indicators of sharia banking performance is not good, The products offered seem less innovative and even tend to follow the existing conventional banking products. So that impressed the manufacture of sharia products only to match the products of existing covical banks. In addition, Islamic banking has not understood the real needs of customers, whereas the real needs of customers is a stumbling instrument in the process of product development projected in improving the performance of Islamic banking performance in the future.

4). **Strengthening community understanding.** Equally important is the lack of knowledge about Islamic Banking in Indonesian Muslim society, which has an impact on the lack of interest of Muslims in Indonesia to save in sharia banks, assuming that sharia banking in Indonesia is just 'changing clothes' from existing conventional banking. This negative assumption will obviously have a strong impact on the existence of sharia banking when it is not balanced with proper education and on target. At least the rapid progress and advancement of information systems and technology today can make the people of Indonesia both top and bottom as we are able to understand sharia banking properly for the sake of the advancement of sharia banking that we love.

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