JGIES
JOURNAL OF GLOBAL ISLAMIC ECONOMIC STUDIES
https://journal.merdekakreasi.co.id/index.php/JGIES
Nomor ISSN : 2987-7008 (Online - Elektronik)

Functions, Roles, and Principles of Islamic Banking in Indonesia: A Review of the Literature

Abd. Rasyid Syamsuri[1], Handi Gunawan[2]
[1] Faculty of Economics, Universitas Muslim Nusantara Al-Washliyah, Medan, Indonesia
[2] Master of Law Student, Universitas Muslim Nusantara Al-Washliyah, Medan Indonesia

Article Information

Article History:
Received : 1-08-2023
Accepted : 20-08-2023
Published: 20 -09-2023

Keywords:
Functions, Roles, and Principles of Islamic Banking

Abstract

An institution of finance called an Islamic Bank has a singular purpose (risalah) and methodology (manhaj), namely the Shariah framework and its tenets drawn from the all-encompassing and universal Islamic Sharia's ethics and values. A significant development in Indonesia's banking industry has been the emergence of Islamic banks, giving customers a choice between using conventional banks or Islamic banks for their financial needs. In light of the fact that Islamic banks operate under the norms of Islamic law using a profit-sharing operational system based on the community principle of al mutanaqisah (a blend of musyarakah and ijarah), while conventional banks utilize an operational interest foregone system (effective interest). Islamic banks use a number of contracts for channeling money, including murabaha, salam, istishna, ijarah, mudlarabah, and musyarakah. Islamic banks also use a number of contracts in their service operations, such as kafalah (bank guarantee), hawalah (debt transfer), sharf (forex buying and selling), and wakalah. Law No. 10 of 1998 Concerning Banking, Law No. 23 of 1999 Concerning Bank Indonesia, Law No. 3 of 2006 as amended by Law No. 50 of 2009 Concerning the Religious Courts, and finally with the issuance of Law No. 21 of 2008 Concerning Islamic Banking, the legal instruments that regulate Islamic banking

✉ Correspondence Address:
abd.rasyidsyamsuri@gmail.com

INTRODUCTION

The rapid growth of banking in Indonesia is attributable to the fact that banks are financial institutions where people, businesses, governments, and private organizations can store their money in the form of savings and deposits. Banks also provide credit to meet customers' financing needs, and they can also hasten the country's economic development. These banks' tactics are undoubtedly impacted by the intense competition in the banking sector, which is consistent with the growth of banking in Indonesia. There are two banking systems in Indonesia: Sharia Banking and Conventional Banking (General).

According to Law No. 10 of 1998 Concerning Banking, "A bank is a business entity that collects funds from the public in the form of savings and issues them to the public in the form of credit and/or other forms in order to improve the standard of living of the people generally." According to Khasmir (2014), a bank is simply defined as a financial entity whose primary function is to collect money from the general public, reinvest it in the community, and offer additional banking services.

According to Dendawijaya (2003), a bank is a legal entity whose primary function is to act as a financial intermediary institution, transferring money from parties with excess funds to parties with a shortage of funds at a given time. Ismail (2010) defines a bank as a financial institution whose role it is to solicit contributions from the general public, disperse those contributions, and offer services in the form of banking services.

Islamic banks—also known as Sharia banks—are financial institutions that don't rely on interest to exist. Islamic banks, often known as interest-free banks, are financial/banking companies whose business practices and offerings are based on the Al-Qur'an and the Prophet Muhammad SAW's Hadith. Or to put it another way, according to Muhammad (2014), Islamic banks are financial institutions whose primary activity is offering loans as well as other services in payment traffic and money circulation. According to Ismail (2011), Islamic banks are those whose banking practices reflect Islamic values. Islamic banks are financial establishments that operate in accordance with sharia principles and whose primary business is the provision of credit as well as other services in payment traffic and money circulation, claims Sudarsono (2003).

The two words that make up Islamic banking are bank and sharia. The term "bank" refers to a financial establishment that serves as a financial middleman between two parties, especially those who have extra money and those who don't. A contract based on guidelines established by the bank and other parties for the diversion of money and/or financing of commercial activities and other activities in conformity with Islamic law is referred to as a "sharia" in the Indonesian version of Islamic banking (Zainuddin, 2008).

Islamic banks, which are still regarded as being new to the banking sector, should have an advantage over regular banks in terms of both service and the products and services they offer. Currently, there are still problems in Islamic banks, including inadequate financial literacy in the community and limited public awareness of Islamic banks. Many people may not aware the advantages and processes of Islamic banking because of the poor literacy level of the general populace. Even according to the Financial Services Authority, there is a significant divide between those who live in urban areas and those who live in rural areas, as well as those who reside in remote areas that are challenging to access (Pinsker and Lufityanti, 2018; Wasita and Salim, 2019).

On the basis of the background information provided, we performed theoretical research into Indonesia's Basic Concepts of Islamic Banking. This inquiry is intended to ascertain the fundamental idea behind the establishment of Islamic banking in Indonesia.

RESEARCH METHOD

The technique in this article makes use of a literature study that serves as the foundation for the fundamental idea of Islamic banking in Indonesia. It draws on a variety of papers that have been extensively read through theoretical advancements and research paths.

RESULTS AND DISCUSSION

a. History of Islamic Banking in Indonesia

The majority of banks in Indonesia are Western reflection banks (America and Europe), also known as conventional banks, despite the fact that the majority of the population in Indonesia is Muslim. Studies on Islamic banking have been published since the 1980s, but Bank Muamalat Indonesia established the realization in 1991. The government, the Indonesian Ulema Council, the Association of Indonesian Muslim Intellectuals, and a number of Muslim businesspeople all contributed to the establishment of this bank. Law No. 7 of 1992, which did not yet explain about Islamic banks, gave this bank a tenuous legal foundation when it first opened. However, once Law No. 10 of 1998 was revised, the position of Islamic banks was strengthened. The late 1990s financial crisis also had an impact on Bank Muamalat Indonesia, which is why only one-third of the founding capital is left in equity today. After receiving a financial boost from IDB, this bank was able to grow and turn a profit between 1999 and 2002. Currently, Law No. 10 of 1998 concerning Amendments to Law No. 7 of 1997 Concerning Banking regulates the existence of Islamic banks in Indonesia.

Bank Muamalat Indonesia, Bank Syariah Mandiri, and Bank Mega Syariah were the three Islamic banks in Indonesia up until 2007. Meanwhile, 19 commercial banks, including major financial institutions like Bank Negara Indonesia (Persero) and Bank Rakyat Indonesia (Persero), already have sharia business sections. Rural banks have also adopted the sharia system; as of now, 104 such banks exist.

The development of the national Islamic banking industry now has a more solid legal foundation thanks to the passage of Law No. 21 of 2008 concerning Islamic Banking, which was published on July 16, 2008, and will promote its expansion even more quickly. It is anticipated that the Islamic banking sector's contribution to sustaining the economy would grow even more substantial given its excellent development progress, which has produced asset growth of more than 65% annually on average over the last five years (Sholihah, 2023).

b. Functions and Roles of Islamic Banking

Islamic banking serves as an intermediary organization that channels funds from the general public back to those who need them in the form of financing. Islamic banks exist alongside conventional banks to provide a different financial system for those who require banking services but don't want to be concerned about interest rates (Usanti and Somad, 2013).

The prologue to the accounting standards published by AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) lists the roles and responsibilities of Islamic banks, including:

1. Investment managers, which allows Islamic banks to handle customer investment funds.
2. Investors, Islamic banks may invest both their own money and money given to them by clients.
3. Islamic banks may continue to conduct regular banking service operations as providers of financial services and payment traffic.

4. Execution of social operations. Islamic banks are required to issue and manage (collect, administer, and distribute) zakat and other social funds as an essential element of their financial institutions (Sudarsono, 2008).

c. Islamic Banking Principles

Law No. 21 of 2008 addressing Islamic banking in Indonesia contains the rules governing Islamic banks. The Al-Qur'an and Hadith serve as the legal foundation for Islamic banks, hence these operations must adhere to this foundation.

Sharia principles are rules based on Islamic law that govern how banks and other parties deposit money, finance commercial ventures, and engage in other sharia-compliant activities. The principles of Islamic banking include:

1. The principle of fairness (adl), which states that everything should be placed in its proper place, given to the appropriate bank, and treated as per its share.
2. The concept of balance, or tawazun, refers to a harmony between material and spiritual characteristics, private and public aspects, the financial and real sectors, commercial and social aspects, and the harmony between sustainability and usage.
3. The concept of maslahah (maslahah) encompasses all manifestations of goodness that have ukhrawi and worldly dimensions, material and spiritual as well as individual and collective, and must satisfy three requirements: they must be halal, beneficial, and bring good in all aspects of life as a whole, without harming anyone, and they must also conform to Islamic law.
4. According to the spirit of universal mercy (rahmatan lil alamin), something can be done and accepted by, with, and for all interested parties (stakeholders) regardless of nationality, religion, race, or class. This is what is meant by the principle of universalism (alamiyah).

Some of the Islamic economic tenets that guide Islamic banks include: 1) justice, equality, and solidarity; 2) forbiddance of things and living things; 3) recognition of intellectual property; 4) prudent use of assets; 5) absence of income without work and obligation; 6) general credit terms; and 7) duality of risk. Fundamentally, Islamic banking must adhere to religious sharia and be founded on the Koran and Hadith. Sharia Banking must use the legal foundation of the Koran and Hadith in order to conduct its business and ensure that it complies with Islamic sharia.

CONCLUSION

An Islamic bank, in its most basic sense, is a financial institution that conducts its operations in accordance with sharia law. Islamic banks have a distinct philosophy than traditional banks. This is due to the fact that Islamic banks differ from ordinary banks in terms of their legal foundation and goals (maqasid syariah). The Al-Qur'an and Hadith serve as the legal foundation for Islamic banks, hence these institutions' operations must adhere to this foundation. All areas of a person's life that work toward achieving security in this world and happiness in the afterlife are governed by Islam as a religion.

REFERENCES

Dendawijaya L. (2003). Manajemen Perbankan, Edisi kedua. Jakarta: Ghalia Indonesia.
Ismail. (2010). Manajemen Perbankan. Jakarta: Prendamedia Group
Ismail. (2011). Perbankan Syariah. Edisi Pertama, Jakarta: Kencana Prenada Media Group
Kasmir. (2014). Bank dan Lembaga Keuangan Lainnya. Edisi Revisi. Jakarta: Raja Grafindo Persada.
Muhamad. (2014). Manajemen Dana Bank Syariah. Jakarta: Rajawali Pers
Pinsker, Y. L., Lufityanti, G. (2018). OJK Sosialisasikan Pengelolaan Keuangan Desa-Tribun Jogja. Retrieved June 3, 2023, from https://jogja.tribunnews.com/2018/08/01/ojk-sosialisasikan-pengelolaan-keuangan-desa
Sudarsono H. (2003) Bank dan Lembaga Keuangan Syariah, Yogyakarta: Ekonisia
Sudarsono H. (2008), Bank dan Lembaga Keuangan Syari'ah. Yogyakarta: Ekonisia. Cetakan ke-2
Sholihah L. I. (2023). Prinsip dan Pengertian Bank Syariah, https://www.ayoksinau.com/bank-syariah/#ftoc-heading-2.
Usanti T. P., Somad A., (2013). Transaksi Bank Syariah, Jakarta: Bumi Aksara
Wasita, A., Salim, A. (2019). OJK terus tingkatkan literasi keuangan masyarakat pedesaan-ANTARA News. Retrieved June 3, 2023, from https://www.antaranews.com/berita/1159100/ojk-terus-tingkatkan-literasi-keuangan-masyarakat-pedesaan
Zainuddin A. (2008). Hukum Perbankan Syariah. Jakarta: Sinar Grafikka