

The Impurity Of Shariah Banking

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ABSTRACT

The practice of Islamic banking should run accordingly with the rule of sharia. Islamic banking aimed to overcome conventional banking problems, which are often profit-driven and benefit only a particular party. In Indonesia, where the majority of the population is Muslims, Islamic banking runs together with conventional banking and creates a dual-banking system. This dual-banking system seems fair on the one hand. However, it causes challenges in terms of the pure practice of Islamic banking, on the other hand. This research analyses the implementation of Islamic banking in Indonesia within the dual-banking system through three main frameworks: the regulation of Islamic banking, Islamic banking's product to compete with the conventional ones, and the government regulation regarding this matter. The research shows that Indonesia has not been able to implement Islamic banking in accordance with the sharia rules fully. Instead, some principles are adapted according to the dual-banking system and are aligned with the interest of various parties such as the government and central bank of Indonesia..

Keywords : *Dual-banking system; Indonesia Islamic Banking; Islamic banking; Islamic finance; Sharia banking.*

INTRODUCTION

Basically, Islamic banking emerges as a solution to the practice of conventional banks, which are profit-oriented and considered amoral to the Islamic principle, as this practice only benefits one party and often harms customers. Aburime and Felix (2009) explained the difference between Islamic and conventional banks, which lies in the prohibition of interest; the emphasis on the Islamic principle of morality; the emphasis on collateral; the certainty of deposits and return; and the liquidity and solvency risks.¹ Firstly, Islamic banking never charges and pays interest on any transaction. Secondly, Islamic banks will run according to the rule of sharia known as *fiqh al-muamalat* rather than profit maximization principles. Thirdly, Islamic banks examine more on viability and profitability of the projects instead of measuring the size of collateral, while the conventional banks choose to finance on the project based on how strong the collateral value is. Fourthly, conventional banks warrant depositors with particular rates of return, yet Islamic banks apply the principle of profit and loss sharing, which might harm or benefit both parties fairly. Lastly, as the Islamic banks engage more on fairness and trade financing, it has higher liquidity risks and lower solvency risks.

The emergence of Islamic banking in Indonesia initially aimed to answer the challenges of capitalism in presenting transactions that were not profit-driven and could benefit all parties. Subsequently, Islamic banking in Indonesia is growing rapidly and operates under the dual-banking system, which allows

¹Mokhammad Anwar, 2016. *The Efficiency of Banks in Indonesia: Sharia Vs Conventional Banks*. Bulletin of Monetary, Economics and Banking, January, 18(3), pp. 307-332.

conventional banks and Islamic banks to operate together. However, as time goes by, the practice of Islamic banking in Indonesia has met various challenges such as the emergence of various interests that must be fulfilled, including from the government, maintaining its existence in markets that are still dominated by conventional banks, maintaining sharia principles which are not profit-driven but still contribute to the economic growth of Indonesia, etc. in the midst of the endless onslaught of capitalism, the consistency of Islamic banking as a sharia-based bank in both theory and practice is always unquestionable.

The main question addressed in this essay is whether and how well Islamic banking rejects the system of conventional capitalist banking in practice in contemporary Indonesia. It will critically examine the practice of Islamic banking in the dual banking system, in which conventional banking has become the market leader, particularly in contemporary Indonesia. The author argues that although Islamic banking, in theory, tries to reject the capitalist system, however, in practice some aspects of Islamic banking are even subordinated to the capitalist. In the case of contemporary Indonesia, this occurs because of three main reasons: the regulatory system under the central bank of Indonesia that still follows conventional banks generally; sharia principles that must be adjusted to national interests; and their ability to be able to compete with conventional banks as a market leader to maintain their existence, particularly in the products they offered. In other words, the author argue that the practice of Islamic banking in Indonesia is still Islamic in name but capitalist in nature.

This essay particularly examines the practice of Islamic Banking in Indonesia from its beginning until the beginning of 2021 because, in February 2021, the Islamic bank in Indonesia merged under the auspices of Bank Syariah Indonesia and has separated from the conventional ones. Furthermore, this essay will first briefly explain conventional capitalist banking with its profit-driven principle and its practice in contemporary Indonesia. Next, it will examine Islamic banking as an alternative solution to the unfavourable capitalist conventional banking. Finally, it will describe the Islamic banking practice in contemporary Indonesia, in particular providing pieces of evidence and reasons of why the Islamic banking practice is Islamic by name but capitalist by nature.

CAPITALIST CONVENTIONAL BANKING

Capitalists believe in unlimited private ownership of various kinds of wealth in the state based on their activities and circumstances. It admits public ownership only when needed by social needs and when experience demonstrates the need for the nationalization of this or that utility.² This necessity is an exceptional circumstance by which capitalist society is compelled

²Muhammad Baqir Al-Sadr, 2009. *The General Framework of the Islamic Economy*. In: *Princeton Readings in Islamic Thought: Texts and Contexts from Al-Banna to Bin Laden*. Princeton: Princeton University Press.

to go outside the principle of private ownership; it is an exception with regard to a utility or form of utility whose area is clearly defined.

*“What is in capitalism is in contradiction with Islamic values such as exploitation of human beings, grossly inequalities in the distribution of wealth resulting in its concentration in fewer hands, the dominance of monopoly power, persistent poverty, corruption, and other social evils of sort”.*³

Capitalism has constantly underlined the superiority of the powerful and material riches and loss in terms of religious values. Individualism takes more precedence at the cost of society. The market has been glorified, and the wealthy have become their main goal.

According to Mawdudi, one of Muslims economist, the way capitalist grabs more resources in exploitative trend through their advancement on interest-based loans and their investment in commercial and industrial enterprises lead to the division of the society into two classes. First, the moneyed class of a small group of privileged people who own more than they need and use their riches to grow even richer. Second is the larger segment of the society who have little, just enough for their needs or may have nothing at all. This kind of situation is bound to give rise to class conflict and confrontation in society.⁴ That is why the system of capitalism is considered as injustice and amoral in Islamic values because it increases the gap in social classes; it benefits the rich and harms the poor.

In the practice of conventional banks, the correlation among the creditors and borrowers lay on risk transfer from the latter to the former instead of bearing the burden together. Putting risk only on one party is considered unjust and exploitative in Islamic values.⁵ The borrower who has agreed to a variable rate contract is susceptible to the increases of interest rates which proceeds from monetary policy tightening that is extremely exogenous from the creditor-borrower contract. Even if the borrowers could opt for fixed interest contracts, however, these are more expensive in most cases and not very profitable because borrowers can end up paying well over the market value if interest rates decline. In other words, both variable and fixed interest contracts placed borrowers at pricing risk, but this is mitigated for the bank given authority to set interest rates unilaterally.⁶

³Zubair Hasan, 2008. *Theory of Profit from Islamic Perspective*. MPRA Paper, Issue 8129, pp. 1-7.

⁴Sayyid Abul A’la Mawdudi, 2011. *First Principles of Islamic Economics*. Markfield: Islamic Foundation.

⁵Habib Ahmed, et al., 2014. *Reflecting on Islamic Banking and Financial Crisis: Risk, Reputation and Stability*. In: *Islamic Banking and Financial Crisis*. Edinburgh: Edinburgh University Press.

⁶*Ibid*

As in other countries, the practice of conventional banks in Indonesia still adheres to the capitalist system by maximizing profitability. The products offered, such as loans, credits, and leasing, are also profit-based without considering the profit or loss of the customers. The interest system is still one of the main sources of profit from conventional banks. Even Bank Indonesia, as a banking centre in Indonesia, also adheres to the principle of capitalism in general. It also occurs to the rural banks in Indonesia, which target the middle-low class people, although the profit gain is not as big as commercial banks. From the facts above, Islamic banking subsequently arises as an answer to the injustice and amoral practice carried out by the conventional capitalist banks.

ISLAMIC BANKING AS AN ALTERNATIVE SOLUTION

Mawdudi argues that Islam acknowledges that man should be free in his struggle to earn a living, that he should enjoy the ownership right of whatever he earns through his hard labour, and that there must be a difference and diversity among humans in line with the variations in their qualifications and capabilities.⁷ Practically speaking, the human weakness for money and luxuries can never be completely overcome by mere sermonizing or abstract moral precepts. Islam has, therefore, imposed certain legal restrictions on the use of the wealth that is saved after spending on one's lawful needs. Agreeing with Mawdudi, Muhammad Baqir al-Sadr, a Shi'i economist, argues that Islam did impose its own limits on the scope of human freedom.⁸ It has totally prohibited all interest-based transactions.⁹ This principle is expected to answer the problem of capitalism, in which it goes on multiplying its wealth and grabbing economic resources from others.¹⁰ Therefore, the Islamic economic system, including Islamic banking, offers the best prospects for social justice as an alternative to the profit-driven capitalist system.¹¹

Conventional banks and Islamic banking are basically the same in terms of their function in economic. The major purpose of conventional banks is their role as financial agents, in which they take funds from depositors and distribute the funds to the borrowers who need the money for their business transactions.¹² Islamic banks by function are performing exactly the same as

⁷Sayyid Abul A'la Mawdudi, 2011. *First Principles of Islamic Economics*. Markfield: Islamic Foundation.

⁸Muhammad Baqir Al-Sadr, 2009. *The General Framework of the Islamic Economy*. In: *Princeton Readings in Islamic Thought: Texts and Contexts from Al-Banna to Bin Laden*. Princeton: Princeton University Press.

⁹Sayyid Abul A'la Mawdudi, 2011. *First Principles of Islamic Economics*. Markfield: Islamic Foundation.

¹⁰*Ibid.*

¹¹Muhammad Baqir Al-Sadr, 2009. *The General Framework of the Islamic Economy*. In: *Princeton Readings in Islamic Thought: Texts and Contexts from Al-Banna to Bin Laden*. Princeton: Princeton University Press.

¹²SM Ngalim, et al., 2015. *A Comparative Analysis of the Maqasid Shari'ah of Islamic Banks in Malaysia, Indonesia and the Gulf Cooperation Council Countries*. In: *Islamic Finance: Political Economy, Values and Innovation 1*. s.l.:Gerlach Press.

conventional banks. However, the principles guiding Islamic banking are significantly different from those of conventional banking. All commercial transactions in Islamic banking are set under the precepts of the Islamic legal code known as sharia, which prohibits the practice of *riba* (interest), *gharar* (uncertainty), *maysir* (gambling), and any non-halal (prohibited) activities.¹³

The development of an Islamic bank in itself is based on the *ijtihad* of scholars on how it should be operationalized and managed to represent the Shariah-based financial system.¹⁴ The basic principle of Islamic banking should be applied strictly in which sharia clearly prohibits *riba*, including paying and obtaining any form of interest on financial transactions.

“Money is just a medium of exchange, not an asset that can earn a return on itself. Accordingly, Islamic banks cannot pay or charge a fixed, predetermined interest rate of return on deposits and loans. Lenders and borrowers in an Islamic transaction are essentially engaged in venture financing, and hence they share the associated risk and profits based on a profit and loss sharing (PLS) principle”.¹⁵

As Shariah requires a free interest in its transaction, Islamic banks and financial institutions are attached to use contracts based on sale (*bay*), lease (*ijarah*), and sharing (*syarika*).¹⁶

Another abstinence in Islamic principle is entanglement in *gharar* (uncertainty) and *maysir* (game of chance or gambling), which is strictly disallowed in the Qur’an. It refers to the speculation in business terms to perform a blindly business or to take an excessively risky transaction. For example, perform transactions include short-selling and trading in the futures.¹⁷ Any transaction which does not perform real goods and, even worse, could be considered gambling. In addition, Islamic banks are also prohibited from investing in businesses that are not in accordance with moral value or considered haram—for example, investing in a business that sells alcohol or pork, gambling, and media businesses that bring bad ethics such as gossip columns or pornography.¹⁸

¹³Rima Turk Ariss, 2010. *Competitive Conditions in Islamic and Conventional Banking: A Global Perspective*. Review of Financial Economics, Volume 19, pp. 101-108.

¹⁴M Ngalim, et al., 2015. *A Comparative Analysis of the Maqasid Shari’ah of Islamic Banks in Malaysia, Indonesia and the Gulf Cooperation Council Countries*. In: *Islamic Finance: Political Economy, Values and Innovation 1*. s.l.:Gerlach Press.

¹⁵*Ibid*

¹⁶*Ibid*

¹⁷M Ngalim, et al., 2015. *A Comparative Analysis of the Maqasid Shari’ah of Islamic Banks in Malaysia, Indonesia and the Gulf Cooperation Council Countries*. In: *Islamic Finance: Political Economy, Values and Innovation 1*. s.l.:Gerlach Press.

¹⁸Mokhammad Anwar, 2016. *The Efficiency of Banks in Indonesia: Sharia Vs. Conventional Banks*. *Bulletin of Monetary, Economics and Banking*, January, 18(3), pp. 307-332.

After understanding the principles of Islamic banking along with the rules that may or may not be done, in the next chapter, we will specifically talk about the practice of Islamic banking in contemporary Indonesia.

PRACTICE OF ISLAMIC BANKING IN INDONESIA

Up until now, Islamic banking has spread in more than sixty countries all over the world, which claims to offer an interest-free alternative to conventional banking, including in Indonesia.¹⁹ In Indonesia, the first Islamic banking was built in 1992, namely Bank Muammalat Indonesia, and since then the Islamic banking has developed rapidly within the country.²⁰ Bank Indonesia as the reserve bank gave its official recognition towards the existence of Islamic banking in Indonesia in 1998, as a part of a dual banking system that allows the operation of both conventional and Islamic, or Shariah-based banking.²¹ Meanwhile, in Indonesia, there are 11 Islamic banking operated in both full-applied forms and some sharia branches under conventional banks.²² Although conventional commercial banks and Islamic banks are performing parallel to each other in most Muslim countries, however, conventional banks are still become the market leaders and will remain so for a long time in many Muslim and non-Muslim countries.²³ In contemporary Indonesia, this problem has made the Islamic banks forced to adopt capitalist values in several sectors. This occurs particularly because of three main reasons: the regulatory system, the government factor, and the products to compete for customers.

Regulatory System

Zainul Arifin, an Indonesian shariah banking expert, argues that the poor performance of shariah bank has been caused by the lack of regulations made by the Central Bank of Indonesia in its attempt to engage with the shariah financial market.²⁴ In answering this phenomenon, the sharia bureau in Bank Indonesia has arranged some guidelines for the future development of shariah banking.²⁵

¹⁹Timur Kuran, 2004. *Why the Middle East is Economically Underdeveloped: Historical Mechanisms of Institutional Stagnation*. Journal of Economic Perspectives, 18(3), pp. 71-90.

²⁰Mokhammad Anwar, 2016. *The Efficiency of Banks in Indonesia: Sharia Vs. Conventional Banks*. *Bulletin of Monetary, Economics and Banking*, January, 18(3), pp. 307-332.

²¹Hans Dieter Seibel, 2008. *Islamic Microfinance in Indonesia: The Challenge of Institutional Diversity, Regulation, and Supervision*. *Sojourn: Journal of Social Issues in Southeast Asia*, 23(1), pp. 86-103.

²² Mokhammad Anwar, 2016. *The Efficiency of Banks in Indonesia: Sharia Vs. Conventional Banks*. *Bulletin of Monetary, Economics and Banking*, January, 18(3), pp. 307-332.

²³Shahid Hasan Siddiqui, 2012. *Anatomy and Critique of Islamic Banking*. *Pakistan Horizon*, 65(3), pp. 35-58.

²⁴Alfitri, 2008. *Expanding a Formal Role for Islamic Law in the Indonesian Legal System: The Case of Mu'amalat*. *Journal of Law and Religion*, 23(1), pp. 249-270.

²⁵*Ibid*

“The first formal step was to enact 1993 banking law, by which the government claimed to have implicitly recognized the Islamic banking system by providing the legal foundations for the establishment of profit-share banks. Although the law itself was, at best, vague about Islamic finance, one of its implementing regulations, Government Regulation no 72 of 1992 on Banks Applying Profit Sharing Principles, provided more detail, particularly as regards doctrinal compliance”.²⁶

However, Bank Indonesia, as the reserve bank, seems to oversee the prudential aspect of Islamic banking in the most same manner as the conventional banks.²⁷ For example, instead of seeing Islamic banking as a matter of religion, the statute of 1998 banking amendment law considered Islamic banking as a technical matter of banking regulation policy. Therefore, Islamic banking was placed under the reserve bank of Indonesia, rather than placing it under the Majelis Ulama Indonesia (MUI) or under the Ministry of Religion.²⁸ As a consequence, Bank Indonesia kept its pre-eminent role in the administration of Islamic banking.²⁹ Moreover, the provisions of sharia stated in arts 6(m) and 8(2) of 1998 banking amendment law did not refer to the Qur’an or other sources of Islamic legal tradition. Instead, they described shariah principles as being constituted by activities in compliance with regulations fixed by Bank Indonesia.³⁰ From the perspective of a legal norm, the development of Islamic banking in Indonesia seems to lack concrete norms and lack of regularization in which it is treated the same way as the conventional banks.³¹ Instead of creating a separate system, the Reserve Bank of Indonesia generally applies the framework for regulatory and supervisory activities of Islamic banking the same as what they did to conventional banks. Through this framework, it, therefore, has integrated Islamic banking into the state bureaucratic system for the management of banking.³²

These practices possibly have shaped the assumption of most Indonesian people that Sharia banking practice is slightly the same as conventional banks. Joint research performed by Bank Indonesia and some universities in Java proved that 55% of their respondents assumed that interest in conventional banks does not oppose the Islamic teaching against *riba*. At the same time, it is also revealed that 10.2 % of respondents in East Java thought that sharia banking and conventional banks are similar in practice, and 16.5% of the

²⁶Tim Lindsey, 2012. *Between Piety and Prudence: State Syariah and the Regulation of Islamic Banking in Indonesia*. Sydney Law Review, 34(107), pp. 107-127.

²⁷*Ibid*

²⁸Tim Lindsey, 2012. *Between Piety and Prudence: State Syariah and the Regulation of Islamic Banking in Indonesia*. Sydney Law Review, 34(107), pp. 107-127.

²⁹*Ibid*

³⁰*Ibid*

³¹Alfitri, 2008. *Expanding a Formal Role for Islamic Law in the Indonesian Legal System: The Case of Mu’amalat*. Journal of Law and Religion, 23(1), pp. 249-270.

³²Tim Lindsey, 2012. *Between Piety and Prudence: State Syariah and the Regulation of Islamic Banking in Indonesia*. Sydney Law Review, 34(107), pp. 107-127.

respondents believed that the profit-loss sharing principle is no different with interest.³³

Government Factors

The Indonesian Banking Architecture (API), together with the reserve bank of Bank Indonesia, provide a wider banking service alternative to the Indonesian economy besides the conventional commercial banks by developing Islamic banking under a dual-banking system. Both Islamic banking and conventional banking aim to support a wider public fund mobilization in order to boost the financing capability of national economic sectors. Cited from the official website of Bank Central Indonesia, the characteristic of Islamic banking operation which based on partnership and mutual benefits, will give priorities in aspects related to fairness and good ethics in terms of transaction and investment, and also minimizing speculative risk in a financial transaction. Furthermore, it explains that:

“The development of Islamic banking was directed to provide the highest benefits to the public and to give an optimal contribution to the national economy. Consequently, its development path is always referred to other strategic plans, such as Indonesian Banking Architecture (API), Indonesian Financial System Architecture (ASKI), as well as Medium-Term National Development Plan (RPJMN) and Long-Term National Development Plan (RPJPN). Therefore, the policy in developing Islamic banking is a part and an activity supporting the achievement of a larger scale strategic planning in development at the national level.”

Further, the official website of Bank Indonesia explained clearly the vision of Islamic Banking in Indonesia which is a modern form of the Islamic banking system with open and universal characteristics and inclusive to all Indonesian people without exclusion. Considering the historical socio-cultural circumstance of this country, the Islamic banking system tries to present an applicative form of Islamic economic principle which could answer the current problems faced by Indonesia. By doing so, Indonesian Islamic banking is expected to be able to be acknowledged and accepted by all Indonesian people with no exception as part of the solutions to the various economic problems that occur in Indonesia.

Products to compete for customer

One of the Islamic banks' challenges is to be consistent with its sharia value and hold it firmly while also should be able not to be left behind in the market. However, competing in the market with conventional banks at the objective, which is dissimilar in nature, is an uneasy task. Conventional finance

³³Alfitri, 2008. *Expanding a Formal Role for Islamic Law in the Indonesian Legal System: The Case of Mu'amalat*. Journal of Law and Religion, 23(1), pp. 249-270.

has been focusing on its effect on the economy, while Islamic finance, having Shariah as its foundation, naturally aims at more than just economic growth or profit. Islamic banks are required to conduct their business beyond the expectations of other common businesses. Islamic banks are expected not only to perform as profitable and prudent businesses which comply with Islamic principles but also to conduct socially responsible initiatives and fully disclose the initiatives in their annual reports.³⁴ As a consequence, when Islamic banks are measured or treated in a similar way to conventional banks, it is expected far from reaching the objective of sharia.³⁵

The Islamic banking system has become popular among Muslims because it gratifies their religious and social needs by avoiding the word 'interest' and promoting the word 'Islamic'. Technically, Islamic banks do not lend money; therefore, they have discovered interest-free debt and equity-based products such as musyarakah (joint venture), mudarabah (trust financing), murabahah (cost-plus financing), ijarah (operating lease), and istisna (progressive payment). Musyarakah and mudarabah are equity-like products based on profit and loss sharing mechanisms. For example, in the case of musyarakah, the bank and client are supposed to be partners, and the bank invests in the client's business, hence share risk with the client. If the business earns profit, it will be distributed according to the predetermined ratio between partners, and if the business incurs a loss, both have to bear this loss.³⁶ Murabahah, Ijarah and Istisna are the debt-like products.

However, although Islamic banking claims that their products are technically interest-free, but in practice, it is still based on fixed returns adopted from the conventional banks' system. They frequently use terms of trade, profit, and fine instead of loan, interest, opportunity cost and time value of money, so that the practice sounds more Islamic and based on sharia.³⁷ One of the examples is murabahah. It turns out not in accordance with the Islamic banking of sharia value because it does not comply with the conditions of trade. For instance, a deal is made between a buyer and the bank when the bank does not possess that item. Banks take promise from the buyer, which again is not permissible according to Shariah Islam and Shariah forbid interest to prevent people from exploitation which is still prevailing in the case of murabahah.

All this trade takes place in papers only; in practice, the items are directly transferred to the buyer. There is no advantage of trading in commodities despite the increase in management cost incurred by the bank, which is charged

³⁴Rizkiningsih dan Dewi, 2015. *Factors Influencing Islamic Social Reporting (ISR): An Empirical Study in Islamic Banks in Indonesia, Malaysia, and the GCC Countries*. In: *Islamic Finance: Performance and Efficiency*. Gerlach: Gerlach Press.

³⁵M Ngalim, et al., 2015. *A Comparative Analysis of the Maqasid Shari'ah of Islamic Banks in Malaysia, Indonesia and the Gulf Cooperation Council Countries*. In: *Islamic Finance: Political Economy, Values and Innovation 1*. s.l.:Gerlach Press.

³⁶Khan, 2011. *Islamic Banking Practices: Islamic Law and Prohibition of Riba*. *Islamic Studies*, 50(3-4), pp. 413-422.

³⁷*Ibid*

from the customer and in the end, the customer has to pay more. Whether it is called interest or profit, when the cost of financing and the time allowed for repayment are fixed, it is still considered debt.³⁸ One greater disadvantage of the murabahah contract is that once the contract is signed, the buyer has to pay the additional amount or so-called murabahah profit to complete the transaction, while conventional loans do not charge the interest if they are paid within a specified period. However, in murabahah, there is no way to get rid of this extra amount after entering this contract.³⁹ Despite the murabahah transaction has similar characteristics with the conventional loan transaction, it is becoming popular among Muslims because it avoids certain terms like interest, time value of money, opportunity cost.⁴⁰

CONCLUSION

Since 1992, Indonesia has adopted the dual banking system, in which the conventional banks run together with Islamic banks under the auspices of Bank Indonesia as the reserve bank. The presence of Islamic banking in Indonesia aims to provide a choice of transactions based on Islamic sharia principles, considering that 90% of Indonesia's population are Muslims. The Indonesian government also supports the presence and development of Islamic banks in Indonesia in the hope that these banks can contribute to the economic growth in Indonesia. However, because there are several interests of certain parties, the practice of Islamic banks in Indonesia is no longer in accordance with its original purpose, as a solution to the injustice practice of conventional banking and presenting sharia-based banking to accommodate the needs of Muslims in Indonesia. In practice, the sharia principles tend to be adjusted in accordance with the interest of various parties, including the government and central bank of Indonesia. Moreover, in its efforts to meet the challenges of contributing to the economic growth in Indonesia, Islamic banks are also required to be able to compete in markets both in Indonesia and internationally, which has shifted from the original goal of establishing Islamic banks in Indonesia.

In practice, applying Islamic banking based on sharia and avoiding capitalist system seems to be difficult because capitalism through the institutions which are defined by the name and spirit of Islam, all the explanation above shows that the practice of Islamic banking particularly in contemporary Indonesia seems to be a part of the conventional financial markets. Despite its strong ethical and moral foundations, the weaknesses of the Islamic banking system in Indonesia lies in its regulation system, government factors, and the ability to compete with a conventional bank. Islamic banking in practice is forced to adjust itself to the existing circumstances, such as adopt the regulatory

³⁸*Ibid*

³⁹Khan, 2011. *Islamic Banking Practices: Islamic Law and Prohibition of Riba*. *Islamic Studies*, 50(3-4), pp. 413-422.

⁴⁰*Ibid*

system of conventional banks in a particular case; adjust its purpose according to the national interests as the government do not want to limit capitalism; and offer products which are capitalist-like that can compete both in the domestic and international market. Subsequently, Indonesian Islamic banking adopts the capitalist system of conventional banks in some fields to maintain their existence.

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