

ANALYSIS OF THE LACK OF PUBLIC KNOWLEDGE REGARDING THE DEVELOPMENT OF ISLAMIC BANKING IN INDONESIA

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Abstract

The writing of this article aims to analyze the lack of public knowledge of the development of Islamic banking in Indonesia. The literature review method with a descriptive qualitative approach is a method applied to this study. A literature review is an approach that discovers, analyses, and interprets all data on a study topic used to answer queries and requests for previous research. The subject of this study is the holy book that explains and explains the challenges of Islamic bank development in Indonesian culture. The results of the research on existing literature will discuss the development of Islamic banking as well as the gap between the theory and practice of understanding society and Indonesian people perspective towards Islamic banks. The findings of the study are expected to show conclusions about the causes of the lack of public understanding of the development of Islamic banking in Indonesia.

Keywords: *Indonesian Islamic Bank, Development, Public Knowledge, Literature Review*

1. INTRODUCTION

Islamic banking refers to a financial institution that operates in conformity with Islamic principles or Islamic law as outlined in the Qur'an and Hadith (Qurrati A'inina et al., 2021). Usury is often avoided by those who use Islamic banking, as usury is thought to be prohibited in Islam. Islamic banks are appealing to the public since they are distinct from conventional banks in a number of ways, despite the fact that many individuals still prefer regular banks.

The foundation of Bank Muamalat in Indonesia in 1992 marked the beginning of the country's Islamic banking history. Bank Muamalat was established in response to the desires of Indonesian Muslims for a banking system without additional fees as a return guarantee or what is known as interest (Nasihati, 2019). Due to the economic crisis suffered by the Indonesian people in 1998, the public's demand for the establishment of Islamic banks grew substantially. In particular, the enactment of Law No. 7 of 1992 concerning Banking, which the government used as a stronger legal basis for the establishment of Islamic banks in Indonesia, made the development of sharia in Indonesia more appealing to the public.

Bank Muamalat is one of the first Islamic banks in the history of Islamic banking in Indonesia. This is proved by the fact that Islamic banks have been operating for nearly thirty years. Islamic banks' efforts to expand Islamic banking in Indonesia have shown fruit, as seen by the increasing diversity of goods and services as well as the infrastructure and facilities that encourage the growth of Islamic bank finance (Frdaus & Nasihati, 2019).

The establishment of a sharia bank is intended to strengthen the national economy (Syukron, 2013). In order to help Muslims, Islamic banks are expected not to contradict the sharia's teachings or rules. The interest structure employed by conventional banks is one of the aberrations that separates them from Islamic banks. Consequently, the establishment of

Islamic banks in Indonesia is beset with difficulties and issues that must be overcome. The lack of widespread information regarding Islamic banks, which leads Islamic banks to be undervalued by the larger community, is a challenge.

So far, the banking industry in Indonesia has advanced, not just conventional banks' benefits are highlighted. Indonesia needs a banking system that adheres to Islamic law. This is important so that their banking transactions adhere to their religious beliefs. The banking business plays a crucial role in the economic growth of the Indonesian people, specifically by contributing to changes in economic activities that are productive. In order to be useful for the people of Indonesia, the Islamic banking business must change rapidly by developing strategies, innovating, and employing suitable, cautious, and inventive risk mitigation measures. Islamic banking products include sharia savings, sharia deposits, sharia mortgages, sharia financing or loans, and sharia demand deposits, depending on the customer's needs. These items can be utilized by Indonesians engaged in the sharia sector (Retno, 2021).

The phenomenon of Islamic banks arose with the establishment of Islamic banks that concentrate on banks that employ the Islamic system, such as Bank Muamalat, and a type of conventional bank that has begun to pay attention to the Islamic banking system. How to expand its flight. In 2019, the number of sharia bank users was 19.445.128 (Ahyadi, 2021). Aspects of the marketing mix contribute to the fact that Indonesians do not like Islamic banks. This means that Islamic banks cannot provide personal benefits, the nature of Islamic banking products is mediocre, there are restrictions on network/bank access, unattractive product features, limited knowledge of Islamic banks, banks are too far away from their customers, profit sharing systems, high management fees, low public confidence in Islamic banks, and a lack of public relations activities in Islamic banks. Unattractive are the qualities of a profit-sharing system with poor ties to the surrounding community.

Based on the issue above, the author is interested in writing this article with the subject Analysis of the Lack of Public Knowledge Regarding the Development of Islamic Banking in Indonesia in order to analyze the difficulties of establishing Islamic banking in Indonesian society.

2. LITERATURE REVIEW

2.1. Scope of Islamic Bank

Sudarsono (2003) in (Musfiroh et al., 2017) state that in general, Islamic banks are financial entities whose primary function is to provide financing and other payment and distribution services in accordance with Sharia law. Rasyidin (2016) defines an Islamic bank as one that works according to Sharia principles and whose processes are based on the Quran and hadith.

The Islamic Banking Law No. 21 of 2008 defines Islamic banks as those that operate in accordance with sharia or Islamic law. The principles of Islamic sharia that are sought after include the foundation of justice and balance (*'adl wa tawazun*), practicality (*maslahah*), and universalism (*alamiyah*), as specified in the council's fatwa, and do not include leverage, coercion, usury, fraud, or illicit purposes. In addition, scholars of Islamic banking law in Indonesia require Islamic banks to carry out crucial jobs while also fulfilling their social responsibilities. Baitul Mal is an entity that distributes funds from zakat, infaq, scholarships,

grants, and other social funds to the Waqf Manager (*Nazhir*) at the discretion of the Waqf Provider (*Wakif*).

2.2. Sharia Transaction Principles

Islamic banking adheres to a banking system that emphasizes features of fairness and investment and is regarded as mutually beneficial between clients and banks, cohesion and friendliness. The development of the Indonesian Islamic Banking System under the Dual Banking System or the Indonesian Banking Architecture (henceforth referred to as API) is an alternative to the expansion of Indonesia's banking services (Luthfa, 2022).

In the Islamic financial system, Islamic banks and Islamic capital markets are both tied to the Islamic law premise. The method and mechanism for determining profits varies significantly from conventional financial systems. Included in this is the Islamic banking system. There are numerous sorts of contracts and agreements at Islamic banks. Sharia Review Board (hereafter referred to as DPS) is an institution that ensures all Islamic bank product offers comply with Islamic law. The accords are Wadia, Mudarabah, Musyarakah, Murabahah, Salam and Istishna. Nurhayati (2011) in (Rosyida, 2013) separates Islamic trade principles into five sections. First, brotherhood (*ukhuwah*) signifies that sharia transactions support the value of unity's advantages. Therefore, you should not profit at the other party's expense. This principle is founded on the Islamic principles of knowledge (*ta'aruf*), comprehension (*ta'aruf*), assurance (*takaful*), synergy, and alliance (*tahaluf*). Second, justice always entails searching for something, based on the individual who satisfies the standards and occupies the position. This principle's application in *Muamara* prohibits the existence of factors that conceal the interests of all sorts and forms of *Riba*/Interest as well as *fadh*l. *Riba* is transformed as a supplement to the primary claims required for lending and borrowing transactions as well as other non-monetary transactions or transactions between commodities, including similar cash or exchanges of money that are impressive or unique.

2.3. Sharia Banking Practice

Islamic banks utilize profit and loss sharing, whereas conventional banks employ the interest system. Second, in commercial banks, borrowing is referred to as lending or borrowing, whereas in Islamic banks, it is referred to as loans. In the case of commercial banks, funding is based on transactional collaboration (win or lose), but it is based on partnership cooperation in the case of Islamic banks (Yuspin et al., 2020).

2.4. Previous Research

Previously, there were several researchers who studied the lack of public understanding of the development of Islamic banks in Indonesia. These are some of the previous studies that have been done by several researchers.

First, Danang Sasongko (2020) entitled "*Pemahaman masyarakat terhadap bank umum syariah*". The survey method for this survey is a field survey with a descriptive approach. The results of this survey indicate that the public only knows about Islamic banks, but not in detail about Islamic banks. This is due to the lack of public understanding of Islamic banking due to the lack of information elements obtained by the public from Islamic banking through media such as socialization and education, television, print media and social media.

The second is by Hardiyanti (2019) entitled *Kesadaran Umum Perbankan Syariah*. The survey method for this research is qualitative and uses a descriptive approach. The results of this survey indicate that the public still does not understand Islamic banking well. Most of the people in Bakti Village already know what a sharia bank is, but because they do not know the contracts and products offered by Islamic banks, people are not interested in saving their savings in the bank. still not enough.

The third was by (Sari et al., 2022) entitled "*Pemahaman masyarakat terhadap bank umum syariah*" (*Studi Kasus di Desa Barhinai, Kabupaten Langkat*). The survey method for this research is qualitative and uses a descriptive approach. The results of this survey represent the results, and it is concluded from the survey results that the community understands Islamic banking in Balhinai village, Langat Province, namely people only know Islamic banks but do not know Islam. Some people understand Islamic banking, others know nothing about Islamic banking. Most people do not know the products and services offered by Islamic banks. Ignorance of the public due to the lack of information received from the media such as Islamic banking, TV, print media and social networks, so that people wonder what Islamic banking is and what products are in Islamic banking.

Based on the above, it can be concluded that many Indonesian people are not fully aware of the development of Islamic banks in Indonesia. In this case, the public only knows about the existence of Islamic banks without knowing what is happening within the Islamic banks themselves.

Based on the book Sheikh of Umam & Sutanto (2013), Islamic banking is a modern form of banking based on Islamic law, using the concept of risk sharing as the main Islam in the medieval Islamic period and based on the financial system. eliminate the financial system. Based on certain criteria of certainty and benefits. Sharia Banking Law No. 21 of 2008 defines the concept of Islamic banking and Islamic banking. This includes the institutions that cover business activities, as well as the procedures and processes for doing business. Islamic banks are banks that operate on Sharia principles and depending on the type, Islamic banks include Sharia Commercial Banks (hereinafter referred to as BUS), General Sharia Units (hereinafter referred to as UUS) and (Sharia Commercial Banks), popular Islamic finance (hereinafter referred to as BPRS).

3. RESEARCH METHOD

In this study, the researcher employed a qualitative descriptive technique to a literature review. Literature review, also as systematic literature review, is a literature review approach that discovers, analyses, and interprets all data on a study topic used to answer queries and requests for past applied research (Raco, 2018). The subject of this study is the holy book that explains and explains the challenges of Islamic bank development in Indonesian culture.

4. RESULT AND DISCUSSION

4.1. Sharia Banking Development

Bank Muamalat was the pioneer in the 1991 formation of Bank Syariah Indonesia. The Indonesian Ulema Council and the Indonesian Islamic Scholar Association formed this bank (ICMI). The bank is not very well-liked due to its lackluster performance. After the economic crisis and the implementation of reforms, Bank Muamalat began to recruit customers. The expansion of Islamic banks in Indonesia demonstrates the prosperity of the Islamic economy (Marimin, Romadhoni, & Fitria, 2015).

Bank Muamalat was the first Islamic bank and a pioneer of other Islamic banks, extending this approach to conventional financial institutions. Due to a broken interest rate structure, a large number of conventional banks were liquidated during the 1998 currency crisis. Islamic banks continue to exist and may continue to exist. Moreover, in the middle of the global financial crisis that struck the world at the end of 2008, Islamic financial institutions surged once more to demonstrate their resilience. Islamic financial institutions are stable and provide Islamic bank shareholders, security holders, borrowers, and depositors with benefits, convenience, and security. During the financial crisis of 1998, Bank Muamalat's performance improved despite the absence of government support. During the financial crisis of 2008, Bank Muamalat was able to make profits in excess of \$300 billion. True Islamic banks can leverage this dynamic to demonstrate that they are robust, crisis-resistant, and capable of large growth. Consequently, deliberate measures are required to reach this goal. Strategic measures for the development of Islamic banks will enable conventional commercial banks to create branches in Islamic business units (IBUs) or transform conventional banks into Islamic financial institutions. This strategic action is a reaction and initiative to the 1998 tenth amendment to the banking law. The law that replaces Law No. 7 of 1992 specifies the legal basis and sorts of activities that Islamic banks may manage and conduct (Marimin, Romadhoni, & Fitria, 2015).

4.2. The Gap Between Theory and Practice of Public Understanding

It is hardly a secret that synchronicity frequently occurs between Muamara Sharia theory and practice (Menne, 2017). This could be due to numerous site-specific circumstances and personal characteristics. This gap also appears to exist in the reporting model's implementation. IAI released the PSAK in Islamic Finance edition in 2011. Observers, particularly PSAK 100, pertain to the framework for the creation and presentation of financial statements, whereas PSAK 101 addresses the presentation of Islamic financial statements. As stated by Choir, he indicated that the human resources (HR) crisis is one of Indonesia's and the world's greatest challenges.

According to the International Monetary Fund (IMF), Bank Islam Indonesia will enjoy strong growth in 2011 and is the only developing nation that promotes Islamic banking development. As the retail director of the bank, PT, stressed, "capacity building to construct Islamic banks has been reinforced," this goal is not merely rhetoric. Bank Muamalat (Tbk). The issue of applying Sharia Law violates the stipulations of this norm. Again, this assertion is speculative until the researcher questions the relationship between theory and practice. If the leader is solely motivated by profit, then the organizational mechanism will undoubtedly be led by a capitalist leader. "There will undoubtedly be a discrepancy between the standard and practice if we refine the standard while practitioners prioritize profit," he stated.

Therefore, there is always a gap where the perpetrator returns to the previous system and pursues profits when he does not fully comprehend and integrate Sharia.

If the manager's main motivation is profit, it is certain that the institution's functioning mechanism is capitalist. "There will undoubtedly be a discrepancy between the standard and practice if we refine the standard while practitioners prioritize profit," he stated. Therefore, when culprits are unable to fully comprehend and absorb the Shari'a, there is always a window of opportunity for them to pursue profit and return to the former system.

Antonio cites a further reason why Islamic accounting has not been totally isolated from the conventional system (2011). Initially, the conventional system was "silent" in comparison to Sharia, according to him. The Shariah system, which was introduced in the 1990s and led to the foundation of Bank Myt Ghamr in Egypt, is undergoing constant improvement. On a conceptual level, the topic of Sharia contains a plethora of novel concepts that can improve Shariah accounting norms.

4.3. Indonesian Public Perception of Islamic Banks

The majority of the public's awareness of Islamic finance is limited to a lack of comprehension. Numerous individuals do not comprehend the concept of Islamic banking. There is still widespread confusion regarding the distinction between conventional bank rates and Islamic bank profit sharing rates. Indeed, there are still numerous inquiries from those who are unfamiliar with the terminology utilized by Islamic banks.

Muamalat contracts employed by Islamic banks, such as *mudharabah* and *ijarah*, serve as the foundation for the development of Islamic banking products. Journalists' understanding of the muamalat contracts utilized by Islamic banks has not been maximized. Therefore, the level of understanding of Islamic banking is still quite low, and the entire community, as clients and prospective customers, must be informed.

The absence of information owned by the Muslim community is a result of Islamic banks' inaccessibility. Such as Islamic banks, which have a reputation for devoting less attention to prospective prey such as clients in favor of product growth. It is also anticipated that individuals continue to view Islamic banking as a conventional bank. Islamic banks are difficult to explain because to the lack of information gathered by the five senses.

Islamic banks are known only by this term. The public is unaware of the mechanism utilized by Islamic banks and the benefits they offer. This necessitates that Islamic bank cooperate harder with other Islamic banks and create infrastructure to prevent people from encountering difficulties when attempting to utilize Islamic banks instead of traditional financial institutions.

The lack of knowledge and socialization of Islamic banks in delivering and explaining the principles of Islamic banking has led to a rise in public comprehension among those who are unfamiliar with these concepts. Islamic banks must engage in socialization and public relations. Therefore, Islamic banks must provide explanations that the general public can comprehend.

5. CONCLUSION

5.1. Conclusion

On the basis of the findings, we can conclude that the development of Islamic banking is considerably slower than that of conventional banks. Several causes have led to this result. Disagreements between theory and practice in the understanding of society are exchanges between theory and practice are common knowledge of Sharia Muamalat. The majority of those who are familiar with Islamic banking are those who do not comprehend it.

Numerous individuals lack an understanding of Islamic banking. Many individuals are still puzzled by the distinction between the interest rates used by conventional banks and the profit-sharing model utilized by Islamic banks. Indeed, there are still questions regarding hermaphroditism, and the typical person is unfamiliar with the terminology employed by Islamic banks. The lack of techniques followed by Islamic banks contributes to the dearth of knowledge within the Muslim population.

As is well-known, Islamic banks concentrate on product development while paying little attention to their prospective market share as consumers. In addition, Islamic banking is still viewed as a conventional bank. Interpreting Islamic banking is challenging because to the lack of information recorded by manually.

5.2. Suggestion

On the basis of the preceding, we will provide proposals and recommendations to Islamic banks and construct infrastructure connected to Islamic banks in order to avoid complications while establishing Islamic banks as an alternative to conventional financial services transactions. Due to the absence of information and socialization frameworks utilized by Islamic banks to give and explain the operational principles of Islamic banks, the operational principles of Islamic banks remain mostly unknown. The results of this article can be utilized as additional data and as a reference for future research on Islamic banking.

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