

Application of Islamic Financial Governance in Sharia Banking in Indonesia

Mahyudin¹, Pebi Yolanda², Stephen Pwani³

UIN Fatmawati Sukarno Bengkulu¹²

Kenyatta University, Kenya

e-mail:

¹Mursalaquarius23@gmail.com

²pebyyolanda.21@gmail.com

³Stephen.pwani@ku.ac.ke

ABSTRACT. This research suggests a connection between Sharia banking and Sharia governance, particularly in Indonesia. The qualitative data for the study were gathered using the library approach. In this study, secondary data from books and articles on the subject that were gathered from reputable research publications were utilized. The necessity for Sharia banking services as well as the expanding diversity of products are what are driving the growth of the Sharia banking business. The findings of the literature research indicate that the Islamic banking sector must understand how popular it is becoming. All organizations under oppression need Islamic governance because it promotes and upholds Islamic banking and finance. The findings of this study suggest that Bank Indonesia laws control the application of Islamic Sharia in Indonesia. Indonesian Sharia banking must comply with Sharia principles and is governed by several laws and regulations about the conduct of transactions. However, Indonesian Islamic banks have not yet been able to incorporate Islamic governance into their day-to-day activities.

Keywords: Financial governance; Islamic Banking; application;

INTRODUCTION

Islamic banks are banks that follow Sharia law and are subject to a different regulatory framework than traditional banks. By flying the true flag of Islam, Islamists must ensure conformity with Islamic rules and values in all aspects of their business, products, operations, equipment, and practices. To maintain sound Islamic legal principles, legal supervisors (such as the Central Bank and the Financial System Supervisor) must also ensure that the correct procedures are followed.

The Sharia Supervisory Board, which consists of Muslim academics who uphold integrity by muamalah jurisprudence, is required to be present to supervise the provisions of the relevant Sharia bank during Sharia banking transactions. The bank is required to form a Sharia department consisting of a Sharia Risk Control Unit, a Sharia Internal Reviewer Unit, a Sharia Audit Unit, and a Sharia Compliance Unit that oversees and manages business initiatives. banks to ensure Sharia rules are followed in everyday life. An Islamic governance system will let Islamic banks separate themselves from conventional financial companies.

Islamic banking has developed and grown unusually. Islamic banking is the only sector in the world that is taking off quickly, growing, and being welcomed by both Muslims and non-Muslims. Several countries have created overarching governance management frameworks to meet the needs of Islamic Financial Institutions (also known as IFIs) since the significance of Islamic management

has increased over the past few years. Although Sharia business has not grown significantly compared to smaller Muslim countries, Indonesia is the largest Muslim country in the world.

According to this principle, Sharia banking practices must include an accountability component so that no bank transactions contain prohibited elements. Implementing a solid corporate governance structure in Sharia banking can increase added value for all stakeholder organizations.

Since the 2008 financial crisis, when corporate fraud, poor governance, and financial exchange rate manipulation occurred, good corporate governance has received significant attention from academics and business practitioners. By being transparent, trustworthy, and fair, governance must meet the demands of individual clients, shareholders, creditors, and regulators, and the academy has pushed for improvements to governance structures to increase business dependability and effectiveness. Typically, they rely heavily on unreported research examining governance in non-financial companies.

Financial institutions are very different from businesses in unregulated industries, such as manufacturing companies, according to Hamid et al. in Amalia, E. & Srimaya, L.S. Financial Institutions (2023), then the board of directors of banking companies is given a significant role in their governance structure. (Yusifa et al., 2023)

METHOD

This can be done by using library research strategies described in books. Secondary data used in this research was collected from books and articles on the issue published in publications for accounting. Collecting literature on governance, Sharia governance, and Sharia banking was the first stage in the data collection process for this project. The second step is to group books and articles into categories based on the topics discussed, such as Islamic banking and Islamic administration. In addition, cite relevant data according to the source and topic discussed using scientific citation practices. Fourth, researchers used multiple data sources to confirm the results. The researcher groups the data at the end according to the systematics of research writing.

RESULTS AND DISCUSSION

Conceptual Framework for Islamic Financial Governance

The general public's understanding of Islamic principles is anticipated to enhance the implementation of a framework that combines the internal and external structures and operations of Islamic banking. Science does not yet support the inclusion of other interest groups in corporate governance models that are only minimally influenced by business operations. However, the Islamic administration places special emphasis on combining human and environmental welfare. The foundation of the stakeholder model is Islamic values, which include property rights, respect for explicit and implicit contractual obligations, and the use of a strong incentive system.

Various studies on government from an Islamic economic perspective have been carried out to date. This is possible because, after being neglected for a long time, the Islamic economy has only recently begun to grow and develop rapidly. Therefore, new studies are needed that describe Islamic administration, its implementation, and its framework in each country.

Syariah banking

Since the late 1980s, conventional banks have dominated the banking business in Indonesia. As of 2012 Islamic banking is a relatively new type of banking, accounting for only 5% of the market. Despite having the largest Muslim population, Indonesia lags behind other Muslim countries in the growth of the Sharia banking system initiated by the Indonesian Ulema Council in the early 1990s,

especially Malaysia, which in 2010 had a market share of 20%. In Indonesia, Sharia law has been in effect for a long time.

The Sharia financial system includes the Indonesian capital market, insurance business, pawnshop industry, savings and loan sector, and other industries targeted for developing the Sharia system. The Sharia financial system, including the Sharia banking system, is a financial system that adheres to Sharia principles, namely adhering strictly to the Al-Quran and hadith. This system is an economic system created by Allah SWT and implemented and exemplified by the Prophet and his companions.

According to Wiroso (2009), 3 Sharia principles are agreement rules based on Islamic law between banks and other parties for depositing funds and/or financing business activities, or other activities by Sharia, including financing based on the principle of profit sharing (mudharabah), financing based on the principle of capital participation (musyarakah), the principle of buying and selling goods at a profit (murabahah), or financing of capital goods based on the principle of pure rental without options (ijarah) or with the option of transferring ownership of goods rented from the bank by another party (ijarah wa iqtina). (Mashuri, 2014)

Early 2021, BRI Syariah, BNI Syariah, and Bank Syariah Mandiri, three Indonesian Sharia financial institutions, merged to establish PT Bank Syariah Indonesia Tbk or BSI. The main objective of this joint venture bank is to meet and serve the increasing demand of the Indonesian people for Sharia financial solutions.

The Sharia banking experience can be improved and optimized with help from BSI. For example, customers can click on a product to find out more about it, investigate the underlying Sharia principles, and provide translations into Indonesian and Arabic. In addition, BSI encourages application users to make donations and take part in community activities.

Indonesia can play a big role in the global Sharia economy if the largest Sharia bank in this country, BSI, develops the Sharia economy and the world Sharia market. This view is reinforced by Bank Indonesia's estimate that Sharia banks will grow at a rate of almost 79 percent per year over the next few years. Indonesia's Sharia banking sector has grown by an average of 37.9% over the last five years. Apart from that, 34 provinces in Indonesia now have Sharia banking offices. At this point, Indonesian Sharia banking has a very big opportunity to happen.

Adoption of Sharia governance in Sharia banking in Indonesia

IFSB Mihajati Corporate Governance Principles discusses the importance of Islamic governance in Srimaya. The FSB emphasized that "appropriate mechanisms must be put in place to ensure compliance with Sharia principles." The IFSB guidelines on normative principles of Risk Management state that Islamic financial institutions must have an Islamic board or advisor to ensure compliance with Islamic standards.

To maintain Sharia compliance at all times and levels, Sharia banking must also have a framework and procedures to supervise all company activities and daily operations. Oman's Islamic governance structure includes the High Sharia Supervisory Authority (within the CBO), the Internal Sharia Reviewer (Head of Sharia), and the Sharia Supervisory Board. The Indonesian Sharia Supervisory Board also refers to all related laws and regulations, including those governing Bank Indonesia, in carrying out its duties and obligations. Implementation of Good Corporate Governance for Sharia Commercial Banks and Sharia Business Units is the title of Bank Indonesia Regulation Number 11/33/PBI/2009 which regulates Sharia governance in Indonesia.

The beginning is that transparency, or openness in disclosing important facts during the decision-making process, is one of the five basic principles that must guide the implementation of governance in Sharia banking. The requirement that all bank operations be transparent and

accountable to prevent the development of a competitive perspective indicates the second, accountability.

Ultimately, fairness requires banks to treat all stakeholders equally and fairly to prevent the interests of one party from taking precedence over the interests of others.

In my opinion, Indonesian Sharia banking should be regulated by several laws and regulations relating to the use of the five basic principles of governance. The implementation of governance in Islamic banking seeks to promote compliance with relevant legal requirements and moral principles as well as to protect the interests of stakeholders. In addition, it aims to carry out banking operations by the five basic principles and Sharia law.

Islamic banking must comply with Sharia principles in the governance of its operations because failure to do so will result in several problems, including a bad reputation. The concept of responsibility, which aims to convince stakeholders that operational activities are carried out transparently and accountably by Sharia principles and that no business activities contain prohibited elements such as usury, gharar, or uncertainty, is the basis of Islamic governance.

As Sharia banking develops in Indonesia, it turns out that there are still operational problems that conflict with Sharia law. The Sharia Business Unit of Bank Danamon Tbk which carries out speculative derivative transactions (gharar) as part of Sharia banking is the main illustration. Transactions prohibited by Sharia law. Apart from that, branch managers and their staff committed loan fraud at two UUSs, Bank Kaltim and Bank Jateng. As a result, it can be said that Indonesian Sharia banking as a whole does not use Sharia governance in its regular business operations.

Current Problems with the Implementation of Islamic Governance

Apart from defending shareholder rights, according to him, Sharia banking must prioritize justice and safeguard the interests of all parties involved. Islamic banking must overcome several practical problems to eliminate the dangers of Islam and current issues, including the level of independence, confidentiality, competence, and disclosure of information of Islamic committees, and weaknesses of Islamic banking governance. Some of the areas requiring improvement include the overall plan of Islamic administration, the internal structure of Islamic governance, the quality of the Sharia Council in terms of expertise, independence, transparency, and confidentiality mechanisms, as well as operational and Sharia processes. Board evaluation.

The legal system influences the way scholars view Islamic administration properly. Conclusion: Ineffective Sharia banking practices will result from a lack of accountability, responsibility, and independence in decision-making (as governance principles). In Southeast Asia, Sharia supervision does not adhere to a perfect paradigm.

A clear organizational structure with qualified personnel is the second prerequisite. Then determine in detail who is responsible for what and with what authority. regulations for approving goods and activities that demand respect for Sharia law and morals also exist. Finally, regular independent reviews of Sharia compliance are required. In addition to the good governance components found in conventional banking, Islamic banking demands strict Islamic governance based on the principles of Islamic law. Additionally, banks are permitted to enter into revocable agreements with Sharia board members. Governments can also pay Sharia board members, although this recommendation may not be the best for all countries.

Islamic banking may also have a clear organizational structure that emphasizes the authority and accountability of various stakeholder groups, helping to clarify the duties and obligations of the Sharia board.

The Sharia board can make wise decisions by consulting experts in economics, finance, law, and political science. Islamic banking, society, and government can apply these principles to develop

effective Islamic governance practices based on the teachings of Islamic law and corporate moral behavior. Islamic financial organizations cannot adopt an Islamic governance system. Some dangers, such as potential violations of Sharia law, do not apply to standard banking. When banks ignore Sharia laws that have been enforced by Sharia authorities, risks occur.

It is possible to lower the risk of Sharia non-compliance, maintain the good name of these institutions, and avoid losses. This can be achieved by building a suitable and efficient Islamic governance framework. Islamic banking benefits from the use of Sharia governance.

Islamic government aims to safeguard the interests of all people. International regulatory organizations such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) also help implement Islamic governance. Indonesian Sharia banks need to comply with Islamic norms to gain the trust of banking stakeholders. There are international laws and Bank Indonesia regulations.

By creating an effective Sharia governance system, Sharia banking can comply with Islamic rules and principles. Sharia banking must be implemented with strong Sharia governance because Bank Indonesia has full capacity to regulate, supervise, and monitor compliance with Sharia banking.

Problems with the implementation of Sharia governance and challenges faced by the Sharia Supervisory Board in these Sharia institutions. Additionally, it is critical to ensure the active participation of regulators, industry professionals, and Islamic scholars in the development of a comprehensive governance framework. In addition to providing Islamic legitimacy, a good and sustainable Islamic governance framework aims to uphold values that go beyond Maqashid al-Shari'ah, the basic objectives of Sharia, and to promote openness, trust, moral behavior, credibility, and people's rights. stakeholders. finance.

CONCLUSION

Islamic academics and bankers have recently become more interested in Islamic administration. Various research efforts have been carried out in countries where Islamic finance has recently developed or has had a significant impact on the economy.

The development of this industry is reflected in the growth of the Sharia banking service network and the increasing diversity of Sharia banking products. Demands for governance and Sharia banking are increasing as Sharia banking enters the mainstream. Islamic administration mainly relies on Islamic finance. Corporate and Islamic governance are necessary in any organization. This procedure determines whether economic activities, products, and machinery comply with Sharia law.

To maintain stakeholder trust in the Islamic banking and finance sector, Islamic governance is essential. This study confirms that Bank Indonesia law regulates the implementation of Sharia law in Indonesia. Several requirements for Indonesian Sharia banking must be followed to implement governance and adhere to Sharia principles. For Indonesian Sharia banking, the integration of Sharia governance in daily business operations seems to be an obstacle. To increase effectiveness, efficiency, and responsibility, Sharia banking is expected to implement Sharia governance in the future.

REFERENCES

Lubis, F. A. (2018). Aplikasi Sistem Keuangan Perbankan Syariah. *Human Falah: Jurnal Ekonomi Dan Bisnis Islam*, 5(2), 269–292.

Mashuri, M. (2014). Sistem Keuangan Syariah Solusi Pengentasan Kemiskinan. IQTISHADUNA: Jurnal Ilmiah Ekonomi Kita, 3(2), 839–849.
<https://ejournal.stiesyariahbengkalis.ac.id/index.php/iqtishaduna/article/view/55>

Yusifa, E. V., Permatasari, F. H., Sujianto, A. E., Syariah, M. K., Negeri, U. I., Ali, S., & Tulungagung, R. (2023). Pengaplikasian Tata Kelola Keuangan Islam Dalam Perbankan Syariah di Indonesia. 1(3).