

INDONESIAN ISLAMIC BANK: THE GROWTH OF DEPOSIT**Andi Iswandi**

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Abstract : Islamic banks in Indonesia were born in 1992, but their development has only been rapid since 1998, namely since the amendment to the 1992 banking law, which includes equipment regarding the Islamic banking system in the law. Since then, Islamic banks have grown by an average of 150% per year. The central bank, namely Bank Indonesia, and other groups in the market contributed to significant growth, this was done through outreach programs to the public. In December 2003, the Indonesian Ulema Council, an independent clerical body acting as a fatwa for Islamic banking products and operations, issued a decree that interest is haram. This fatwa leads to a rapid increase in deposits to Islamic banks. Although harsh criticism was launched by some Muslim intellectuals, but the fatwa attracted wide attention and awareness of Muslims, but the fatwa attracted widespread attention and awareness of Muslims in general in Indonesia, which caused discussions about Islamic banking to increase rapidly in every region and region of Indonesia. There are two factors behind the success of Islamic banks in increasing deposits from the market. Apart from that, there are also other factors that contributed to this success, such as a number of academics finding alternatives to the capitalistic and secular economic system which is believed to be the main cause of the 1997-2003 Indonesian economic crisis.

Keyword : role of institutions, deposits, islamic banks

Abstrak : Bank syariah di Indonesia lahir pada tahun 1992, namun perkembangannya baru pesat sejak tahun 1998, yaitu sejak amandemen undang-undang perbankan tahun 1992, yang memuat peralatan mengenai sistem perbankan syariah dalam undang-undang tersebut. Sejak itu, bank syariah tumbuh rata-rata 150% per tahun. Bank sentral, yaitu Bank Indonesia, dan kelompok-kelompok lain di pasar berkontribusi terhadap pertumbuhan yang signifikan, hal ini dilakukan melalui program penjangkauan kepada masyarakat. Pada bulan Desember 2003, Majelis Ulama Indonesia, sebuah badan ulama independen yang bertindak sebagai fatwa untuk produk dan operasi perbankan Syariah, mengeluarkan dekrit bahwa bunga adalah haram. Fatwa ini menyebabkan peningkatan pesat dalam simpanan ke bank syariah. Meskipun kritik keras dilontarkan oleh beberapa intelektual Muslim, namun fatwa tersebut menarik perhatian dan kesadaran umat Islam secara luas, namun fatwa tersebut menarik perhatian dan kesadaran umat Islam secara luas pada umumnya di Indonesia, yang menyebabkan diskusi tentang perbankan syariah meningkat pesat di setiap wilayah dan wilayah Indonesia. Ada dua faktor di balik keberhasilan bank syariah dalam meningkatkan simpanan dari pasar. Selain itu, ada juga faktor lain yang berkontribusi terhadap keberhasilan ini, seperti sejumlah akademisi yang mencari alternatif untuk sistem ekonomi kapitalistik dan sekuler yang diyakini sebagai penyebab utama krisis ekonomi Indonesia 1997-2003.

Kata Kunci : peran lembaga, deposito, bank syariah

INTRODUCTION

The development of Islamic banking in Indonesia has a unique experience compared to other countries. Some researchers argue that Islamic banking has certain political interests behind its development, this may be true in the early phase of its development. However, after a certain period Islamic banking took its own path to develop itself into a professional bank, free from political influence in running its business and operations. The same case can be found in the history of Islamic banking in Indonesia (BPPN and RI 2015).

The Indonesian government's efforts to provide a legal basis for the establishment of Islamic banks through the amendments to the 1969 banking law into banking law 7/1992 are seen as one of several government efforts to gain more support from the Muslim community in the 1992 elections. Thus, through consistent strengthening of banking rules and regulations, Islamic banks can maintain their business when there is a change in the ruling government. They even survived when a severe crisis hit the Indonesian economy from 1998 to 2001 (Rois and Sugianto 2021).

Since then, Islamic banking has entered a new phase, after the amendment to the Banking Law no. 7/1992 into conventional and Islamic laws together with the Central Bank Law no. 23/1999, political elements are no longer involved in Islamic banking. Now Islamic banking is growing in line with the regulations that have been prepared by the central bank. Surprisingly, with the new era of " *re-regulation* " in Indonesia, Islamic banking has developed in a spectacular and unexpected (Fikriyah and Alam 2021).

Currently, Islamic banking is entering a very rapid development that was not previously anticipated. Almost one to three months the birth of a new sharia bank or sharia business unit (a special division within a conventional bank that is the center for opening sharia branches). This unique phenomenon emerged with the fact that Indonesia had recovered from an acute and prolonged economic crisis that paralyzed the banking system and caused political instability (Werdi Apriyanti 2018).

The success of Islamic banks in surviving the crisis, amidst the many closures of conventional banks by the central bank can be considered as one of the factors that influence public opinion. People often think that bank resilience in a crisis is a measure of system compliance practiced by a bank. Partially this perception is correct in the sense that the community is involved in a system of shareholders, management and violations, most of which have the passion to make the bank successful. The bank accepts any consequences as a result of the downturn in economic conditions. However, a very reasonable reason for its resilience from the crisis is because the bank has sufficient capital to cover immovable assets. and only a few make foreign exchange based on financial assets, on the other hand banks need very large capital allocated to secure them (Purwoko 2015).

The central bank's policy in developing the Islamic banking system also took place at the same time as efforts to restructure the crisis in the national banking system. It seems that the strategy of developing Islamic banking as an alternative aims to have a new banking system that is in line with international requirements for the "health" of the banking system (Lubis and Fuad 2019). In addition, Islamic finance is slow but sure. It continues to shine through the birth of Islamic instruments in the international market. However, efforts to restructure the national banking system also aim to gain customer trust in the banking system, which fell drastically during the economic crisis. The crisis has destroyed nearly 80% of

financial assets that were previously managed by banks. Therefore, the policy of developing Islamic banking includes certain strategies to gain customer trust, something that is missing from conventional banks, and for that capital can be mobilized again to be used to rebuild the economy (Purwoko 2021).

This paper analyzes the efforts of Indonesian banks, ulama and other institutions in the development of Islamic banking in Indonesia, and their effect on Islamic banks, particularly in mobilizing funds from the public (Lubis 2020). This paper also covers the history of Islamic banking in Indonesia and unexpected developments, especially after the Indonesian Ulema Council issued a fatwa that interest is usury (Iswandi 2014b). A fatwa that gave birth to controversy among Muslim intellectuals, but has a relatively large influence on Islamic financial institutions in Indonesia (Lubis 2021)..

METHODS

The data of this research was collected through the study of documents and libraries, using the *method of philosophical approach*, then analyzed qualitatively using analytical analysis methods that describe data based on the formulation of problems and ethical philosophy in the view of Ibn Miskawaih?

RESULTS AND DISCUSSION

History Of Islamic Banking 1992-1999

The history of Islamic banks began in the early 1990s, when the Indonesian Ulema Council held a workshop on tire interest. One of the recommendations that resulted from the workshop was to ask the government to establish an "interest-free bank" as banks operate on an interest basis in this country (Iswandi 2014a).

First Sharia Bank

The first Islamic commercial bank in Indonesia, was born in May 1992, with authorized capital of 500 billion (approximately 250 million US dollars according to the 1992 exchange rate) and fully paid out 135 billion or 67.5 million US dollars in capital and became a new bank with total payments of the greatest capital ever. With more than 100 thousand shareholders, ranging from small government banks to businessmen and conglomerates. Muamalat was considered a "people's bank" at the beginning of its operation, bank muamalat current accounts are based on the wadi'ah principle and deposit and investment accounts are based on the mudaraba principle. with financing, the bank develops financing products for the purchase of investment goods and working capital based on *bai bithaman ajil* and *murabahah* respectively. The product structure of the bank muamalat, particularly in terms of financing, was a product that was held in 1997. In short, banks classify their financing products into three major categories: sellers, leases (*leasing*) and profit sharing, each of which has a purpose according to the type of business (Hakim 1999). However, the prolonged crisis that hit the Indonesian economy from mid 1997 to 2001 had an impact on the selectivity of banks in applying their products. The resilience of this bank from the crisis made the people amazed and shocked. When some conventional banks are closed. Bank Muamalat actually runs business as usual as if there were no interference (Pramono and Suzuki 2020).

Sharia Business Units

In August 1999 the first sharia business unit was formed by a conventional bank. This unit was established referring to the clause in the Banking Law no.

10/1998, which was further elaborated by a circular letter from the central bank regarding the regulation of the establishment of Islamic bank offices.

This sharia business unit only opens one sharia branch. As stated in the banking law no. 10/1998, conventional banks are allowed to open sharia business units with several conditions. This business unit is popular in Malaysia and other countries under the name "*Islamic Window*". However, sharia business units that are developing in Indonesia take a different way, as Bank Indonesia requires banks to create special branches for sharia business units, even sections or windows in every business unit. branches which result in selling both sharia and conventional products. In other words, *Islamic windows* in Indonesia follow the bank branch system.

However, the requirements for establishing it are the same as establishing other branches. Even more complete requirements are needed, since Bank Indonesia requires the existence of a sharia supervisory board, a special feature of sharia banks, which are placed in sharia business units.

Bank IFI, the first bank to open this unit, is also the first to take advantage of the new structure of Islamic banking products developed only by bank muamalat. This can be seen from the liabilities and assets of its products. However, due to some technical difficulties, this bank only applies murabahah to a large part of its financing portfolio (Iswandi 2021).

Second Sharia Bank

In November 1999, the second Islamic bank was born, the independent Islamic bank was a conversion from a conventional bank, Bank Susila Bakti, which was fully owned by a state bank, then merged with three other state banks and became a large bank called an independent bank.

The establishment of a second bank, taking advantage of the legal basis of the first, marks a new path for the establishment of Islamic banks. When the requirement to pay full capital for establishing a new bank is relatively high. So a number of banks prefer to convert conventional banks into Islamic banks and maintain their capital adequacy ratios above the level required (8%). Islamic banks are one example. Even though the total assets do not exceed Rp. 350 billion, but full support from the parent company makes its capital ratio above 150%. An independent Islamic bank that was born during the economic crisis, is also the first example of converting conventional deposit products and credit portfolios into liabilities and assets for Islamic bank products, but for To carry out these tasks requires customer approval. This requirement must be carried out within a period of one year. And the bank is very successful in fulfilling these conditions considering that they have many non-Muslim customers in terms of liabilities and product assets.

Sharia People's Credit Bank

In addition to commercial banks (banks that can operate on a national scale, there are almost 80 people's credit banks that operate based on sharia principles, in fact, several people's credit banks were built earlier than muamalat banks. They were allowed to do so because of the provisions of the central bank regulation that "a bank" operate at zero interest rates." However, all of these banks faced some difficulties when expanding due to regulatory constraints, and fierce competence in the market.

Policy Changes

During 1992-1998, Bank Indonesia as the central bank served as a "passive" supervisor and examiner for muamalat banks, only Islamic banks. The regulation is applied to Islamic banks and conventional banks. In other words, Bank Indonesia applies "one regulation for all." The first reason for this treatment is that the Banking Law No. 7/1992 does not clearly provide areas for Islamic banks that are required to comply with regulations that are not in accordance with their uniqueness as Islamic banks.

The results of the amendments to the banking law no.7/1992 into banking law no. 10/1998, Bank Indonesia established 3 committees responsible for the development of Indonesian banking in Indonesia:

- a. The supervisory committee consists of the governor of Bank Indonesia, the minister of finance, the minister of religion and the minister of home affairs.
- b. The committee of experts, consisting of well-known figures with backgrounds in religious knowledge as well as other fields such as banking and law.
- c. The workers' committee consists of employee units at Bank Indonesia.

All of these committees, especially the last two, are working intensively in drafting regulations as a technical implementation of the new banking law.

Identification Of Problems

After a series of studies, Bank Indonesia concluded that there are three factors that hinder the development of Islamic banks in Indonesia. The three were identified and classified into four main barriers.

a. Public Understanding of Islamic Banking

The main reason for the slow development of Islamic banks in Indonesia is the ignorance of the Indonesian people towards Islamic contract law (*fiqh muamalah*) in general and Islamic banking practices in particular. Indonesians may be familiar with the banking tradition known as the "October agreement", a series of banking deregulations that resulted from the establishment of hundreds of banks in a short time.

Their closeness to the conventional banking tradition seems to make people hold on to their religious principles which say interest is prohibited from being eroded. Apparently due to this contradictory condition. Between religious principles and the liberal tendency of government economic policies. very clear about interest. This ambiguity persists even though the discourse on Islamic banking continued before and after the establishment of Islamic banking. Research by Bank Indonesia from 2001 to 2004 clarifies this situation.

Table 1. Public Perception Of Interests In Several Provinces.

Provinces	Contrary to Religious Teachings	Not Against Religious Teachings	Doubtful
West Java	62%	22%	16%
Central Java	48%	21%	31%
East Java	31%	69%	
All Java except Jakarta	45%	55%	

Provinces	Contrary to Religious Teachings	Not Against Religious Teachings	Doubtful
West Sumatra	21%	59.3%	30.7%
South Sumatra	33%	16.9%	49%
South Kalimantan	60%	6.4%	33.7%

Source: Bank Indonesia, 2000-2004.

The people's ambiguous attitude towards interest causes them to feel that they do not need the services of Islamic banks. Another factor that contributes to the slow development of Islamic banking comes from public opinion, namely the enemy of its existence. Based on the same research, public opinion about Islamic banks can be summarized as follows: First, in the beginning, Islamic banks were believed to be a technical instrument of the ruling government for political purposes to gain support from the Muslim community because the election agenda was so close. Second, most people consider Islamic banks to be the same as conventional banks. The only difference between the two lies in the product label, Islamic banks use Arabic terms for conventional products. Third, some people perceive Islamic banks as social and profit institutions. While some other people even consider it as a philanthropic organization where people can apply for donations. Others accuse Islamic banks of taking advantage in the name of religious terminology and manipulating the ignorance of Muslims about financial knowledge.

These conflicting opinions are common during the first year of operation of Islamic banks. Many factors lead to these conclusions, but apparently ignorance is the best reason for such conclusions to emerge.

Network

The slow development of Islamic banks is also caused by the lack of an Islamic banking network where the public can obtain services. The lack of a network means that it exists only in a limited area, where Islamic bank branches are established, where people can deposit their funds. Until 1998, there was only one Islamic commercial bank with 9 branches and 79 BPRS, while there were 27 provinces in Indonesia with a total population of nearly 200 million people regulation.

Until 1998, or six years since the establishment of the first Islamic bank, the only regulation that provided a legal basis for Islamic banking was the Banking Law No. 7/1992. This law itself does not even contain a separate clause with the phrase "Islamic bank". The type of Islamic banking that runs is a combination in the sub-article (letter) which reads "banks with other types of business".

Human Resources

The main problem in Islamic banking is exacerbated by the lack of available experts in the field. Most of the practitioners with good expertise in the field of banking practice, but none of them are equipped with sharia knowledge. On the other hand. Many scholars understand Islamic jurisprudence very well, but very little understand finance. This obstacle has a relatively large influence on the

development of Islamic banks in marketing, product development, contract design and others.

Solution

Bank Indonesia's policy to develop Islamic banking is based on three principles. First, the development policy of Islamic banking is a market priority policy. This means that if there is sufficient demand in the market for Islamic banking, regulation and supervision will be accommodated for that demand. Implicitly, requests will be treated proportionally. Second, there is no argument for small industries... this means that Islamic banks are not small industries that must be protected for a certain period until they are ready to compete with other players in the market. Third, fair treatment.

To implement these principles, Bank Indonesia has developed four strategies to overcome the above obstacles.

Socialization. To solve the problem of lack of public understanding, a socialization program was launched in 1999. The socialization involved ulama and all levels of society such as business people, academics, leaders, Islamic institutions and others. Until the end of 2003, this socialization program took the form of a one-day seminar on the principles and operation of Islamic banks, as well as explanations on central bank policies in developing Islamic banks. at a prestigious university.

Starting from 2004, Islamic banks changed the method of socialization, there were a number of higher education institutions opening Islamic banking programs in faculties and departments, socialization was carried out by providing training for lecturers who would teach Islamic banking (training for trainers). Through this new method, it is hoped that the participants will expand the concept and knowledge of Islamic banking to students and the public. So that the various impacts of the training can further overcome the lack of public knowledge of Islamic banking.

Issuance Of Sharia Banking Regulations

To provide space for Islamic banks to operate within a legal framework, Bank Indonesia has developed a number of regulations consisting of institutional management and support for its preparation. the board of directors of bank Indonesia no. 32/34/SK/Dir concerning the opening of a sharia bank office and the decision letter of the directors of bank Indonesia no. 32/36/SK/Dir concerning sharia BPRS). In 2000, the issuance of this regulation became a guideline for the reserve law for Islamic banks, the *clearing system* , (Bank Indonesia Regulation no. conducting business activities based on sharia principles) money market for sharia banks (Bank Indonesia Regulation no.2/9/PBI/2000 February 23, 2000 concerning wadiah bank certificates of Indonesia) (MUI 1994).

In 2002, Bank Indonesia issued the "Blue Print for the Development of Sharia Banks" (Islamic banking bureau, Bank Indonesia, *Blue Print Of Islamic Banking In Indonesia* , 2002) consisting of a 10-year plan for the development of Islamic banks in Indonesia, considered the first in the history of banking. Indonesia. In the blueprint, Bank Indonesia sets several targets that must be achieved by Islamic banking in the next 10 years, such as compliance with sharia principles, 5 to 10 percent share of national banking assets, capital adequacy requirements and others.

The latest development is to prepare a draft law for Islamic banking law, due to recent advances in the market. In this draft law, all aspects of Islamic banking are regulated, including the appointment and election of the Sharia Supervisory Board by (Bank Indonesia, *Academic Paper For Islamic Banking Activities*, 2003).

Training.

In order to overcome the obstacle of the lack of human resources, in the early stages of implementing its policies, Bank Indonesia provided basic courses in Islamic banking for practitioners. These courses, mostly in the form of short-term training, are self-administered and then improvised in collaboration with foreign institutions, such as the Islamic development bank, AAOIFI, and Islamic bank Malaysia Berhad.

Bank Indonesia also sent a delegation to conduct a comparative study on the experiences of other countries that had implemented Islamic banking first, such as Malaysia, Bahrain and Sudan. Bank Indonesia also actively participates in seminars and conferences that hold discussions on the progress and challenges of Islamic banking. Bank Indonesia was a founding member of the Islamic financial service board in 2002 and 2004 became its chair.

Indonesian Religious Leader

In the process, the development of Islamic banking will not be a good policy without involving the ulama. In fact, the role of ulama in the development of Islamic banking is very important. Apart from their role in mobilizing the government to support the establishment of the first Islamic bank, there are other outstanding roles which are described below.

National Sharia Council

The National Sharia Council was established in 1998 by the Indonesian Ulama Council as an autonomous institution, its function as the umbrella organization of the sharia supervisory board. Its main objective is to prevent the sharia supervisory boards of different Islamic financial institutions from issuing fatwas against each other. Before the establishment of the national sharia board, the function of issuing fatwas was in the hands of the sharia supervisory board. Another function of the national sharia board was to recommend members of the sharia supervisory board in sharia financial institutions. These members are selected from among scholars and scholars who have qualifications in muamalah fiqh and basic knowledge of finance (Sidik, 2017) .

The national sharia board consists of two main structures. First, the main committee consists of senior ulama whose main function is to formulate fatwas. Second, the executive committee consists of members from various backgrounds, from sharia to banking and trade. His main task is to prepare preliminary drafts for fatwas, including research on classic Islamic law textbooks. Another important task is to conduct examinations and interviews for prospective members of sharia supervisors who are placed in Islamic financial institutions.

To date, the National Sharia Council has issued 138 fatwas regarding the products and operations of sharia financial institutions, recommending members of the Sharia Supervisory Board of different sharia financial institutions, including 14 commercial banks, 20 sharia business units from conventional banks, 165 BPRS, 13 sharia insurance , 295 sharia mutual fund products, and 1 pension fund (Mahadi & Hidayat, 2018) . These figures will develop a number of financial institutions that open sharia business units (Utami & Cahyo, 2021) .

Interest Fatwa

In fact, the factor that greatly influences the mobilization of funds to Islamic banks is the fatwa issued by the Fatwa committee of the Indonesian Ulema Council at the annual meeting at the end of 2003, which considers the fatwa to be usury which is prohibited by Islam. According to the committee, this fatwa is a continuation and confirmation of the previous fatwas issued in 1990 and 1999.

In 1990, as a result of the ulama workshop on bank interest, the ulama issued a decree that there were 3 views on bank interest, the same as usury, not the same as usury and syubhat, in 1999, the ulama indirectly stated that interest was contrary to sharia principles. This statement is written in 3 fatwas regarding bank products, namely checking accounts, savings accounts and investment accounts (MUI, 2014). Therefore, the results of the previous annual fatwa committee meeting are in a more formal form.

The public responded widely to the fatwa, from those who rejected it to those who supported it. Nevertheless, there is an interesting phenomenon that emerges from this controversy, those who deny whether its content or timing, the issuance of fatwas comes from Islamic intellectuals, a group of Muslims who are mostly educated in western universities, but are often ignorant of the development of Islamic banking. Nonetheless, the issuance of the fatwa has attracted the majority of the public about Islamic banking. Because since then the urge to socialize Islamic banks has been identified with special reference to the bank's interest position as stated in the fatwa.

Public attention has its own impact. Among the results are the establishment of sharia financial institutions. Some are in the form of banks or sharia business units, while others are in the form of insurance, mutual funds and bonds. Apparently no one wants to lag behind market trends that point directly to Islamic financing.

The Role Of Other Institutions

The mobilization of deposits to Islamic banks is also carried out by other institutions, especially Islamic financial institutions. This is because these institutions are ordered, either by their own guidelines or by customers who prefer to place their funds in Islamic banks, whether for transactions (in the form of checking accounts and savings accounts). Or for investment purposes (in the form of an investment account).

Even so, until now all of these institutions do not have a formula and legal basis for their establishment, even though some of these institutions are as old as Islamic banks. This is because they are not under the regulatory oversight of the central bank, but are under a department within the ministry of finance. The draft law to create a supra-institutional resemblance to a financial services authority, combining regulation and supervision of all financial institutions, including banks, was prepared since 1999. Unfortunately, until now the draft law has not been finalized due to a number of reasons, including socio-political conditions.

There are at least three important institutions that can be mentioned because of their role in representing Islamic banks to develop the implementation of deposits.

Sharia Insurance

Islamic insurance started in Indonesia 2 years after the establishment of the first Islamic bank. Currently the number has increased to 3 sharia insurance companies and 9 sharia divisions from conventional insurance.

Islamic insurance provides a broad basis for mobilizing deposits to Islamic banks through opening savings accounts and investment accounts, both for their own benefit and the interests of customers. All premiums and claims are mostly paid through Islamic bank accounts or savings accounts, as all new clients open one of them. For these payments, Sharia insurance also makes Islamic banks one of the managers of their investments as required by insurance regulations. Even though there are limits to the placement of funds in one portfolio. Through this way, Islamic insurance develops investment deposits of Islamic banks which will be channeled into financing.

Sharia Bonds

The mobilization of deposits in Islamic banks can also be done through the process of issuing Islamic bonds. Islamic bond issuers are required to be included in all Islamic bank funds generated from the purchase of bond investors before using them in business.

The history of Islamic bonds in Indonesia began in October 2002 with the issuance of the first Islamic bonds based on *mudharabah* contracts by a government-owned telecommunications company. The issuance of *mudharabah* bonds is considered the beginning of Islamic bonds in Indonesia. Since then there have been more than 6 (Hakim 2004). *Mudharabah* bonds and one medium term *Mudharabah* issued with a total amount of Rp. 825 billion or about 91.7 million US dollars. In early 2004, Islamic bonds based on *Ijarah contracts* began to be issued, after the fatwa on *Ijarah Bonds* was released by the National Sharia Council. The first issuer of these bonds was a well-known retail trading company with an international sales network. In the middle of the same year, more than 2 *Ijarah* bonds were issued which earned over 250 billion or around 27.8 million US dollars.

All issuances of bonds are required by the national sharia board of the sharia supervisory team for all deposits that generate funds in Islamic banks. Due to high liquidity, using bonds as an investment instrument to earn profits and minimize the cost of stock cash funds.

Joint Fund

The benefit of the role of other institutions in mobilizing funds to Islamic banks is the extension of sharia mutual funds. The first sharia mutual fund was established in 1997 but began to emerge in 2004. Until now there are 6 sharia mutual funds and one of them was selected as the best player in the capital market in 2003, because it obtained the highest profit in the market.

Sharia mutual funds help mobilize funds to Islamic banks through sharia insurance. They attract participants to invest their portfolios, including investment in Islamic banking. According to applicable regulations, investment managers are not allowed to invest a portfolio of more than 15% of the issued funds. Even so, it is almost certain that Islamic fund managers will place their funds in Islamic banks, increasing deposits, especially in investment accounts.

Sharia Financial Industry Mobilization Effects

Undoubtedly, all the mobilization factors that have been mentioned have had a very large influence on the development of Islam. There are some pretty good areas to note that led to this banking.

Network

In 1998, Islamic banking only had one commercial bank and 10 branches, 19 cash offices with 76 BPRS (A branch can carry out banking operations, both

accepting deposits and distributing financing. Even that branch has a clear operationalization directly to the central bank. It is responsible for providing monthly reports to the central bank office where they operate. Branch units can accept deposits and disburse financing, but only report to the branch. The cash office can only run deposit services). (see table 2, appendix 1) means that during its 6 years of development, Islamic banks have succeeded in developing 12 branches since before its development (or an average growth of 200% per year). Islamic banks also developed a number of cash offices more than 6 times compared to 1998 conditions.

Table 2. Development of Islamic Banking Network, 1998-2004

Kinds of Bank Office	1998	2001	2004
Commercial banks	1	2	3
Sharia business unit	0	3	11
Branch	10	48	124
branch	1	5	20
Cash office	19	43	114
BPR	76	82	84

Source: Bank Indonesia, 2005

Islamic banking statistics, different edition This network growth is predicted to continue to grow rapidly as several conventional banks are still in the process of applying for permits to establish their own sharia units. Therefore, this development will lead to the expansion of the Islamic banking business, both raising funds and investing them in the business.

Development Of Sharia Bank Deposits

The clear influence of the development of deposits can also be seen in relation to Islamic bank deposits, during the 3 years of operation, Islamic banks managed to mobilize deposits of almost 400% of the initial amount in 2001, or an average of 133% per year. Substantial growth came from savings accounts (an average growth of 150% per year) and investment accounts (an average growth of 136% per year).

Nevertheless, it is important to note that substantial developments in Islamic bank deposits emerged especially after the issuance of the Fatwa of the Indonesian Ulema Council on interest at the end of 2003. In the first half of 2004, the development of deposit funds had increased to reach trillions.

The substantial development of deposits has certainly supported the categorization of depositors into so-called *emotional customers* and *rational customers*. Emotional customers are those who agree with Islamic banks mainly based on religious motives, while rational customers are based on profit (Bank Muamalat, 2003). That is, for emotional customers, whatever Islamic banks do (costs, profits), they will stay with Islamic banks, while rational customers who do bad bank operations will affect their love.

This categorization may be an exaggeration but, it is true in some respects. In reality Islamic banks are outside the economic crisis that is widely caused by this commitment. Customers give their loyalty to the bank because they receive smaller profits than the interest earned on bank deposits. conventional banks. Through this motive, Islamic banks can maintain their journey.

Table. 3 Growth of deposits in Islamic Banks, 2001-2004 (*billions of rupiah*)

Deposit type	2001	2004	% growth	Average growth
Checking account	299.982	644.793	214.94	71.65
Saving account	590,872	2,409,683	407.82	135.94
Investment account	915.512	4,164,730	454.91	151.64
Total	1,806,366	7,219,206	399.65	133.22

Source: Bank Indonesia

Table 3 also shows that more than half of deposits are in the form of time deposits. The nature of deposits is withdrawable upon request, meaning that deposits are short-term. It can also be concluded that, while most investment funds are required for longer terms than deposits, Islamic banks must apply gap-matching analysis to identify daily and weekly. Therefore, financial channels from other Islamic banks are needed to cover all these positions, a condition that was not easy in the early days, when Islamic banking consisted of only one Islamic bank.

The very large amount of funds in Islamic banks in investment accounts is shown in table 3 that customers are starting to trust Islamic banks as their investment agents. But at the same time, investment funds are not cheap funds to be used in financing. Most investment accounts generally ask for more profit when they place their funds for a long time. At least one month. This condition can explain why many companies consider the profit share demanded by Islamic banks to finance their projects is higher than conventional banks.

Despite the high growth of deposits, the share of deposits in Islamic banks is still small (1%) compared to total deposits in all banks. Even if this growth can be maintained, Islamic banks can achieve, or even exceed, the target set by the blueprint (5% in 10 years).

Development Of Sharia Bank Finance In Indonesia

The high growth of deposit mobilization was responded to by Islamic banks by expanding their financing. Table 4 below shows that for 3 years the development of financing in Islamic banks grew closer to 400% or an average of 128% per year.

Table. 4 Growth of financing in Islamic banks, 1998-2004 (*billions of rupiah*)

Type of financing	2001	2004	% growth	Average growth %
<i>Murabaha</i>	1,420,401	5,822,568	409.92	136.64
<i>Regards</i>	427	312,461	73,175.88	24,391.96
<i>Istisna</i>	167,893	132.260	100	26.26
<i>Qard</i>	na	1,043,350	143.64	33.33
<i>Mudharabah</i>	402,623	578,323	32.37	47.88
<i>Musharakah</i>	53,593	17.348	0.54	10.79
<i>Other</i>	4,856	26	100	0.18
<i>Ijarah</i>	na	7,267	386.07	33.33
Total	2,049,973	7,913,603	386.07	128.69

Source: Bank Indonesia

In terms of quantity, murabahah still dominates the portfolio of Islamic banks (74%). Nonetheless, salam financing has grown above all other types. This is because currently sharia banks use financing methods not for agricultural needs, another type is the emergence of ijarah as a financing model. The same case is that although it is broader than other models, the application of istishna in the construction business shows that currently Islamic banks are trying to use all possibilities, meaning to invest their funds so as to generate profits according to different sharia principles.

Benefits Distribution Of Sharia Banks

In the concept of Islamic banking, funds deposited in different accounts will be channeled directly to the financing business to generate profits. Then the profits will be distributed to the account holders, in particular, accounts based on *Mudharabah*.

Table 6. The average profit distributed by Islamic banks to depositors 1998-2004

Deposit Type	1998	2001	2004
Saving account	8-9%	9-11%	4-7%
Investment account	11-14%	14-17%	8-11%

Source: bank Indonesia

In early 2004, Islamic banks distributed reduced profits as a result of two factors. Bank Indonesia reduces interest based on Bank Indonesia Certificates (SBI). This move causes conventional banks to reduce interest on deposits and time on deposits. The same steps apply bonuses for deposits. The same step also applies a bonus for *Bank Indonesia Wadiah Certificates* (SWBI) which leads to a reduction in profits distributed by Islamic banks to depositors.

Almost at the same time, slowly but surely, deposits to Islamic banks are increasing due to the socialization of fatwas, whether or not the socialization is intentionally carried out through discussions, seminars and interviews in all newspapers and electronic media. If the growth rate for financing is the same as for deposits, then the result can be predicted that the distributed profits will likely be small before Islamic banks distribute the existing profits from the financing portfolio to a higher number of deposits.

Some analyzes see this condition as a short-term phenomenon. The reduction in profits due to high liquidity problems will not last long if Islamic banks can expand their financing at rates that can balance growth from the liability side. However, high growth in financing must be carried out with great care and extreme caution so as not to cause an increase in non-yielding assets that cover the demand for provision of capital.

CONCLUSION

The rapid progress of the development of Islamic banking, particularly in mobilizing deposits, in Indonesia was mainly due to the active participation of the central bank and the ulama in disseminating the idea of Islamic banking to the public, as the implementation of Banking Law no. 10/1998. The socialization program is part of the central bank's policy in developing Islamic banks, while for the ulama the socialization is a consequence of the fatwa which states that interest is usury which is prohibited by sharia. Other institutions participate in the form of active customers governed by their own regulations and customer choice.

First, in the future, the socialization function of the central bank and ulama will be reduced and eventually handed over to the Islamic banks themselves. The task of the two institutions is to oversee the implementation of financing and compliance with sharia. So socialization is the task of Islamic banks that must be carried out, because even though intensive socialization has been carried out by the central bank, and the growth in the number of Islamic banks, ignorance about Islamic banking still surrounds the general public.

Second, it is generally known that Islamic banks see each other as competitors, rather than seeing them as partners in introducing the concept of Islamic banking to the market. For example, there is no cooperation in the implementation of banking such as joint ATMs, or joint advertisements in the media.

Third, the rapid growth of Islamic banking needs to be equipped with proper supervision and regulatory framework, because without it in the future it will lead to a crisis like what happened in conventional banks. Only through supervision and regulation can the echo of the Islamic banking system work and operate properly for the benefit of the national economy and Muslims.

Fourth, there is no legal basis for other institutions in Islamic finance besides banking, even though it has social and political support for its formation. This will create a major obstacle whenever a legal case arises between the institution and the customer or between the institutions themselves. The structure of the complete Islamic financial system does not appear in their picture, and therefore its contribution to the economy will be fully active. The role of a number of groups, including government institutions, requires seriousness so that it has a legal, regulatory and supervisory basis.

Fifth, the public's concern that Islamic banks are too profit-oriented and forget another important function, namely social functions. Even though Islamic banks have established zakat institutions, their main task is to eradicate poverty through small and medium-scale businesses. Political will is needed from the authorities to work together with Islamic banks in carrying out as noble workers.

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