



The Role of the Government in the Development of Indonesian Sharia Banking

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ABSTRACT

The growth of the Sharia financial industry in Indonesia is quite slow, this is due to the lack of the government's role in helping develop the Islamic finance industry, even though the potential of the Islamic banking market in Indonesia is actually very large. Therefore, the purpose of this study is to discuss the issue of whether the economic values of Sharia are in accordance with Indonesian philosophy and values, so that the Sharia Industry is able to develop fundamentally in Indonesian society, as well as how the role of the government is to provide a strong basis in developing the Islamic Banking Industry in Indonesia. Because the progress of Islamic banking as a financial industry determines its development in the economy in Indonesia. This study uses a normative research method, where research is focused on legal norms or norms. In the development of Islamic banking by the government, it involves several institutions as the means. The scope of cooperation coordination is broad in order to make Indonesia the center of Islamic economics and finance Some of these institutions include: Bank Indonesia, the Financial Services Authority and the Sharia Supervisory Board. Each institution carries out its role in order to achieve the objectives of developing Islamic banking which have been arranged in a development management.

Keywords: Sharia banking; Role; Government.



INTRODUCTION

The global Islamic finance industry has shown a fairly rapid development. Based on data from the IFSB Financial Stability Report 2016, the assets of the world's Islamic financial industry have grown from around USD150 billion in the 1990s to around USD2 trillion at the end of 2015 and are predicted to reach USD6.5 trillion in 2020. This growth is increasingly supported the number of countries in the world, both Muslim-majority and non-Muslim, are developing Islamic finance in their countries. For example, Turkey and the United Kingdom.¹

As a country with the largest percentage of the Muslim population in the world, Indonesia is arguably a little late in developing a sharia economy. The official financial institution with sharia principles was only established in 1992, namely Bank Muamalat Indonesia. However, entering this third decade, more and more Islamic financial institutions have developed in the form of banks, insurance and Islamic financing institutions. Seeing this development, the Indonesian Ulema Council (MUI) in 1999 formed the National Sharia Council, which consists of scholars of Islamic law experts and economic practitioners. Through this council, MUI conducts studies that are used as guidelines in the implementation of sharia economics in Indonesia.²

Indonesia continues to strive to develop the Sharia financial industry. Although in Indonesia itself, the development of the Islamic finance industry is relatively small, from year to year it has increased quite significantly. In its development, the Islamic financial industry in Indonesia has different characteristics compared to other countries such as Malaysia and the Gulf Cooperation Council (GCC), which are more focused on investment banking and Islamic financial instruments. Indonesia has complexities that encompass many types of financial services industry and is more oriented towards the retail segment. Indonesia has the largest Islamic financial services institutions and sharia financial customers in a single jurisdiction, in addition to the development of certain things that show the

¹ Otoritas Jasa Keuangan (OJK), *Roadmap Pengembangan Keuangan Syariah Indonesia 2017-2019*, hal 18

² Nufransa Wira Sakt, *Media Keuangan Transparansi Informasi Kebijakan Fiskal, Berkah Ekonomi Syariah*, Volume XIV/ No.140/ Mei 2019, Sekretariat Jendral Kementerian Keuangan, hal 3



distinctive characteristics of Indonesian Islamic finance such as Islamic People's Financing Bank (BPRS) and informal Islamic microfinance institutions.³

The growth of the Sharia financial industry in Indonesia is quite slow, this is due to the lack of the government's role in helping develop the Islamic financial industry. Our neighboring country Malaysia is experiencing quite good growth in the Islamic finance industry due to the government's full support. In this neighboring country, from the start, the government was a top to bottom movement, so that growth immediately accelerated. The local government provides tax incentives to make Malaysia an international Islamic financial center. Tax incentives are also given evenly to the Islamic financial industry, starting from Islamic banks, takaful, fund management, capital markets, to human resource development.⁴ This is very influential on the development of the financial industry there.

So big is the role of the government in contributing to the development of Islamic banking in these countries, so it is only natural that the development of Islamic banking grows so fast and becomes the world's largest asset. Indonesia may be able to become number one for the biggest asset of Islamic banking, beating Iran, Malaysia and Saudi Arabia, because Indonesia's potential is so great, if the government's political will is wholehearted. This is as emphasized by sharia economic observer Adiwarmanto Karim, that the Islamic banking industry, which currently has a market share of 3%, is already in the top four in the world. And this illustrates that Indonesia will be able to lead the global Islamic finance industry.⁵ If the market share of Indonesian Islamic banking is 15%, of course, it will be at the forefront of the world Islamic finance industry. Even though Indonesia has a large enough opportunity to become a trendsetter for world Islamic finance, this can be seen from a number of central banks in other countries asking BI to provide training, such as Bangladesh and Tanzania.⁶

Currently, Indonesia already has a fairly complete Islamic finance industry. Starting from the Islamic banking industry, up to the Islamic non-bank financial industry, and the

³ Otoritas Jasa Keuangan, *Loc. cit.*

⁴ Sharing, *Sudah saatnya Pemerintah Mendukung Penuh Perbankan Syariah*, 55 Edition, V, Juli 2011, page 43

⁵ Sharing, *2012: Outlook Keuangan Syariah Indonesia*, Edisi 60 Thn V Desember 2011, page 10

⁶ Sharing, *Sudah saatnya.. loc. cit.*



Islamic capital market. During the last two decades, the three Islamic financial services sectors have shown quite rapid development. At the ASEAN level, Indonesia's Islamic banking industry is only behind Malaysia, which is in second place in the world. Based on the results of a report from the Islamic Financial Services Board 2013, seen from the profitability ratio, the Indonesian Islamic banking industry is more competitive when compared to Malaysia. This can be seen from the value of return on equity and return on assets of Indonesian Islamic banking, which beat Malaysia.⁷

The potential of the Islamic banking market in Indonesia is actually very large. The main factor is that Indonesia has the largest Muslim population in the world. Bank Indonesia as one of the government institutions has an important role in supporting the development of Islamic banking financial institutions in Indonesia. So far, the growth of Islamic banking externally has only been supported by Bank Indonesia as the regulator. The Islamic banking industry should also be backed up with political will and action from the government.

In the Islamic finance industry, the direct role of the Government is limited to the legal sector (the issuance of the Sharia Banking Law and the State Sharia Securities Law) and state finance (endorsing global sukuk and retail sukuk). Meanwhile, "indirectly" the Government allowed several BUMN Banks to establish Sharia Business Units (UUS) or Islamic Commercial Banks as subsidiaries of these BUMN Banks. But as a subsidiary, this Islamic bank has tiny assets compared to its owner. This is what makes the development of Islamic banking fairly slow.

Based on the description above, it can be understood that the Islamic financial industry has a very big opportunity to advance the Indonesian economic system which has so far been very dependent on the conventional banking system which adopts a credit system so that it uses usury which is basically incompatible with the beliefs of the Muslim community who are the largest population in Indonesia. Indonesia. Meanwhile, the Islamic economic system does not yet have strong ties to Muslim communities who are accustomed to the conventional system. Therefore, it is very important to discuss the issue of the

⁷ Dedi Iskanto, *Industri Keuangan Bank Syariah Nasional Dalam Masyarakat Ekonomi Asean*, *JEBI (Jurnal Ekonomi dan Bisnis Islam)-Volume 1, No.1, Januari-Juni 2016*, page 2



Government's Role in Developing the Islamic Banking Industry in Indonesia. Because the progress of Islamic banking as a financial industry determines its development in the economy in Indonesia.

For this reason, the problem can be raised, namely, Are the economic values of Sharia in accordance with the Indonesian philosophy and values, so that the Sharia Industry is able to develop fundamentally in Indonesian society? And, what is the role of the government in providing a solid foundation in developing the Islamic Banking Industry in Indonesia?

RESEARCH METHODE

This research uses normative research methods. Normative research is research that is focused on examining the applications of the rules or norms in positive law.⁸ The system of norms in question is regarding the principles, norms, rules of legislation, court decisions, agreements and doctrines (teachings) related to Islamic banking. Primary legal materials consist of legislation, official journals and some literature related to Islamic banking.⁹

RESULTS AND DISCUSSIONS

The discussion regarding the role of government needs to be carried out with two approaches to understand the existence of the development of the Sharia Industry in the global arena, namely the Philosophical approach and the Systems approach to the Sharia Economy. The philosophical approach is used as the highest level of Legal Studies in Indonesia which consists of: the Philosophy layer, the Legal Theory layer, the Legal Doctrine layer, and the Legal Practice layer, where the Philosophy layer is related to the highest value in the concept of Indonesian statehood, namely Pancasila. This layer plays the most important role in the country's legal politics which should be broken down into the legal system in Indonesia, including in relation to the economic system in Indonesia.

⁸ Johny Ibrahim, *Teori dan Metodologi Penelitian Hukum Normatif*, Malang: Banyumedia Publishing, 2006, page 295

⁹ Vinna Sri Yuniarti, *Analisis hukum Ekonomi Syariah Terhadap Penyelesaian Pembiayaan Bermaasalah di Perbankan Syariah*, Jurnal Perspektif, Vol. 2 No. 2, 2018, page 218



First, philosophically, Indonesia's economy adheres to the value of social justice for all Indonesian people which is then translated into Article 33 of the 1945 Constitution of the Republic of Indonesia, Article 33 Paragraph 1: The economy is structured as a joint effort based on the principle of kinship". This value shows the need for the role of government in the development of the Islamic Economic Industry because the word "joint venture based on the principle of kinship" indicates an economic system built on the basis of the relationship between economic institutions and society, where the principle of kinship indicates an equal relationship between institutions and society. based on the principle of freedom of contract with different values between conventional economic institutions and Islamic economic institutions.

For example, in the banking transaction relationship, there are vast differences between the two. In conventional banks, freedom of contract is interpreted as the submission of customer's law to the rules established by conventional banking. Basically, the customer does not have the freedom to participate in regulating the "law" that applies to banking transactions, but must follow the rules made by the conventional banking system. Whereas in the Sharia banking system, the Bank and the public both submit to the syariah SKIM that is in Sharia Economic law, such as mudharabah or murobahah.¹⁰ The position of the bank and the customer is equal in that economic relationship, as in kinship. This shows that philosophically the Government needs to play a role in developing the Sharia Economic Industry as a mandate of the 1945 Constitution of the Republic of Indonesia.

Second, a systems approach is needed to understand what are the main differences between the conventional economic system and the Islamic economic system, so that in the development of the Islamic Economic Industry it does not fall into industrial "labeling", but is actually carried out systemically. The development of the Islamic economic industry today is still trapped in the labeling of industrial products, for example: "Sharia Banking", "Sharia Cooperatives". Sharia Economy "in which there is still a conventional economic system.

¹⁰ Budiharto, Edy Sismarwoto. *Freedom of Contracts and Dispute Settlement Between Conventional Banking and Sharia Banking*. International Journal of Economics and Business Administration Volume VIII, Issue 1, 2020. pp. 285- 291



The main difference from the conventional economic system with the sharia system is the transaction contract. In the conventional economic system, all of the products use the "credit" or "accounts payable" system, even in savings or time deposit products basically use the accounts payable system, where the bank owes the customer so that the customer is given interest by the bank.¹¹ This credit system causes usury according to Islamic sharia, because the slightest addition to debt repayment is usury. This principle distinguishes sharply from Islamic economic transactions, which use a buying and selling scheme or cooperation. Islam teaches the difference between the usury system (credit / debt with additional returns) and buying and selling in which the additional is the agreed profit.

The explanation above shows the need for the support / role of the government in realizing an economic system that is not based on a credit or credit system which is a profit-oriented liberal capitalist product, so it is necessary to develop an economic system that is oriented towards profit loss sharing. Implementation of the Profit-Loss Sharing System in the Sharia Economic system is a contractual agreement between two parties where each party collects resources (finance), invests them in several projects and then shares profits and losses.¹² The development of the Islamic banking system in Indonesia is carried out within the framework of a dual-banking system or a dual banking system within the framework of the Indonesian Banking Architecture (API), to provide a more complete alternative banking services to the Indonesian people. Together, the Islamic banking system and conventional banking synergistically support the mobilization of public funds more broadly to increase the financing capacity for sectors of the national economy.

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¹¹ Ibid

¹² <https://www.kompasiana.com/satsa/54ff4d4fa333111f4c50fb24/penerapan-sistem-profit-loss-sharing-bank-syariah>



banking synergistically support the mobilization of public funds more broadly to increase the financing capacity for sectors of the national economy.¹³

In the development of Islamic banking by the government, it involves several institutions as the means. The scope of cooperation coordination is broad in order to make Indonesia the center of Islamic economics and finance. Some of these institutions include:

1. Bank Indonesia

Bank Indonesia (BI) is the Central Bank of the Republic of Indonesia, which is an independent state institution in carrying out its duties and powers, free from interference from the government and / or other parties, except for other matters expressly regulated in the Law on BI. BI is led by a Board of Governors consisting of a Governor, a Senior Deputy Governor and at least 4 people or a maximum of 7 Deputy Governors who are proposed and appointed by the President with the approval of the House of Representatives. During the period 1992-1998, Bank Indonesia as the central bank was only a passive supervisor of Bank Muamalat, which is the only Islamic bank in Indonesia. BI uses Law No. 7 of 1992 as its basis. This law is also used by BI to supervise conventional banks. BI cannot make special regulations for Muamalat banks because Law No. 7 of 1992 does not accommodate special rules for Islamic banks.¹⁴

Bank Indonesia (BI) as the Central Bank has an important role in the development of Islamic banking in Indonesia. Bank Indonesia has made plans regarding the development of an Islamic economy in Indonesia, one of which is Islamic banking. Bank Indonesia also issued regulations governing Islamic banking.

2. The Financial Services Authority (OJK)

The Financial Services Authority (OJK) is a supervisory agency for financial services such as the banking industry, capital market, mutual funds, finance companies, pension funds and insurance. With the existence of Law no. 21 of 2011 concerning OJK, making the Financial Services Authority (OJK) an independent institution and free from

¹³ <https://www.ojk.go.id/id/kanal/syariah/Pages/Perbankan-Syariah.aspx>

¹⁴ Bambang Iswanto, Peran Bank Indonesia, Dewan Syariah Nasional, Badan Wakaf Indonesia dan Baznas dalam Pengembangan Produk Hukum Ekonomi Islam di Indonesia, *Iqtishadia*, Vol. 9, No. 2, 2016, 421-439, page 426



interference other parties, the duties and authorities of regulating, supervising, examining and investigating as referred to in the Financial Services Authority Law.¹⁵

The regulatory and supervisory functions are not fully assigned to OJK. However, OJK continues to cooperate with BI and has its respective authority in carrying out regulatory and supervisory functions. Regulation and Supervision of institutional, health, prudential aspects, and bank examiners are the macroprudential scopes of the OJK's duties and authorities. The scope of macroprudential regulation and supervision is the duty and authority of BI.¹⁶ In the framework of macroprudential regulation and supervision, OJK coordinates with BI to conduct moral appeals (moral suasion) to banks.¹⁷

OJK as the supervisor of the financial system, especially in the macroprudential sector, will have a very positive impact on the development of Islamic banking. Not only Islamic banking, but the impact can also be felt by other non-bank Islamic financial institutions such as the Islamic capital market, Islamic insurance, and other Islamic financial institutions.

3. Sharia Supervisory Board (DPS)

Responding to the significant developments in Islamic banking in Indonesia, the government and the DPR then issued Law Number 21 of 2008 concerning Islamic Banking. Referring to the provisions of Article 1 paragraph (1) of the Sharia Banking Law, it is stated that sharia banking is everything that concerns sharia banks and sharia business units, including institutional business activities as well as methods and processes for carrying out their business activities. Through this Law, it is regulated in more detail regarding Islamic banks and matters related to Islamic banking activities.

DPS is a sharia supervisory agency in charge of supervising the operations of Islamic financial institutions in order to remain consistent and adhere to sharia principles. The Basic Guidelines for the National Sharia Board (DSN) Chapter II paragraph (5) states that the Sharia Supervisory Board is an agency that exists in a sharia financial institution and is tasked with overseeing the implementation of decisions of the National Sharia Council in Islamic

¹⁵ Article 1 Number (1) Act No. 21 of 2011 about the Financial Services Authority

¹⁶ Utary Maharany Barus, Peran Otoritas Jasa Keuangan (Ojk) Dan Dewan Pengawas Syariah (Dps) Dalam Pengawasan Akad Pembiayaan Pada Perbankan Syariah Yang Mengandung Klausula Eksonerasi, page 3

¹⁷ Otoritas Jasa Keuangan, Booklet Perbankan Indonesia, Edisi 1 (Maret 2014), page 19



financial institutions.¹⁸ As for the more effective role of the DSN in Islamic banking, a Sharia Supervisory Board (DPS) was formed to represent the DSN in every Islamic banking in Indonesia. As stipulated in Bank Indonesia Regulation (PBI) Number 6/24 / PBI / 2004 DPS is a board that supervises sharia principles in the business activities of Islamic financial institutions.

Various regulations and policies implemented by the government through state institutions have gone through various considerations. There are various processes of planning, organizing and using other resources in order to achieve predetermined organizational goals. This means that the development of Islamic banking in the process can be seen from the management side of its development. The process of describing the management functions runs in accordance with their respective main tasks and functions.

Ricky W. Griffin (2004) defines management as a process of planning, organizing, coordinating and controlling resources to achieve goals effectively and efficiently. Effective means that goals can be achieved according to planning, while efficient means that existing tasks are carried out correctly, organized, and according to schedule.¹⁹ The function of management may reflect the forms and methods of the Government or institutions that play a role in the development of Islamic banking, including:

1) Planning Function

In management, planning is the process of defining organizational goals, creating strategies to achieve those goals, and developing an organizational work activity plan. Planning is the most important process of all management functions because without planning other functions of organizing, directing, and controlling will not work.

The planning function in the development of Islamic banking in Indonesia is carried out by Bank Indonesia. Bank Indonesia has a vital role to play in creating a healthy performance of financial institutions, particularly banking. The creation of such banking institutions' performance is carried out through supervisory and regulatory mechanisms.

¹⁸ Abdul Mujib, Dewan Pengawas Syariah (DPS) Pada Lembaga Keuangan Mikro Syariah di Wilayah Jawa Tengah, *Az-Zaqrā*, Vol. 9, No. 1, Juni 2017, page 134.

¹⁹ Samuel Batlajery, Penerapan Fungsi-Fungsi Manajemen Pada Aparatur Pemerintahan Kampung Tambat Kabupaten Merauke, *Jurnal Ilmu Ekonomi & Sosial*, Vol. VII, No. 2, Oktober 2016, page 138



To provide guidelines for sharia banking stakeholders and to put Bank Indonesia's position and perspective in developing Islamic banking in Indonesia, Bank Indonesia in 2002 issued a "Blueprint for the Development of Sharia Banking in Indonesia". In its preparation, various aspects have been considered comprehensively, including the actual condition of the national sharia banking industry and related instruments, the development trend of the Islamic banking industry in the international world and the development of the national sharia financial system that is starting to take shape, and cannot be separated from the framework of the financial system. more macro in nature such as the Indonesian Banking Architecture (API) and the Indonesian Financial System Architecture (ASKI) as well as international best practices formulated by international Islamic financial institutions, such as IFSB (Islamic Financial Services Board), AAOIFI and IIFM.²⁰

The development of Islamic banking has a vision, mission and goals as well as a set of strategic initiatives with clear priorities in order to overcome the main challenges and achieve targets within the next 10 years, namely achieving a significant share of the Islamic banking market through deepening the role of Islamic banking in national financial activities. regionally and internationally, in conditions of starting to form integration with other sharia financial sectors, all of which are contained in the "Blueprint for the Development of Sharia Banking in Indonesia".

The process of developing Islamic banking to become broader, the national Sharia Banking must be able to become a domestic player but have international quality service and performance, before moving to the next level.

In the end, the Islamic banking system that Bank Indonesia intends to establish is a modern, universal Islamic banking system open to all Indonesians without exception. A banking system that presents applicable forms of sharia economic concepts that are formulated wisely, in the context of the current problems that are being faced by the Indonesian people, and by still paying attention to the socio-cultural conditions in which this nation writes its historical journey. Only in this way, efforts to develop the Islamic

²⁰ <https://www.ojk.go.id/id/kanal/syariah/Pages/Perbankan-Syariah.aspx>



banking system will always be seen and accepted by all Indonesian people as part of the solution to various problems in the country.²¹

In carrying out the development of Islamic Economics and Finance, BI acts as AIR (Accelerator, Initiator and Regulator). In this function, BI acts as a regulator, namely formulating and issuing provisions in accordance with BI's authority, including issuance of provisions for PLJPS, Sharia GWM, (RIM and PLM) development of instruments (including: PUAS SIMA, Sharia Repo, Sharia Hedging, BI Sukuk and Sharia NCD).²²

2) Organizational Function

The process that concerns how the strategies and tactics that have been formulated in planning are designed in an appropriate and tough organizational structure, a system and a conducive organizational environment, and can ensure that all parties in the organization can work effectively and efficiently in order to achieve organizational goals.

As a concrete step towards developing sharia banking in Indonesia, Bank Indonesia has formulated a Grand Strategy for Islamic Banking Market Development, as a comprehensive strategy for market development that includes strategic aspects, namely: Establishing the 2010 vision as the leading Islamic banking industry in ASEAN, image building new national Islamic banking which is inclusive and universal, more accurate market mapping, more diverse product development, service improvements, and a new communication strategy that positions Islamic banking as more than just a bank. Furthermore, various concrete programs have been and will be carried out as the implementation stage of the grand strategy for developing the Islamic banking financial market.

The role of BI as AIR (Accelerator, Initiator and Regulator), in this function is carried out, namely the role of an Initiator, namely initiating innovation in Islamic Economic and Financial development programs, including the development of Islamic social finance, empowerment of the pesantren economy, the corporate sukuk model

²¹ *Ibid.*

²² Departemen Ekonomi dan Keuangan Syariah, *Kebijakan Pengembangan Ekonomi dan Keuangan Syariah (EKSYAR)*, Festival Ekonomi Syariah (FESYAR) – Regional Jawa, Semarang, 3 Mei 2018, page 21



for infrastructure financing.²³ During the period 1992-1998, Bank Indonesia as the central bank was only a passive supervisor of Bank Muamalat, which is the only Islamic bank in Indonesia. BI uses Law No. 7 of 1992 as its basis. This law is also used by BI to supervise conventional banks. BI cannot make special regulations for Muamalat banks because Law No. 7 of 1992 does not accommodate special rules for Islamic banks.

The change occurred when Law No. 72 of 1992 was amended to Law No. 10 of 1998. With this law, BI then formed 3 (three) committees that are responsible for the development of Islamic banking (Hakim 2011). These committees are; The supervisory committee, which consists of the Governor of Bank Indonesia, the Minister of Finance, the Minister of Religion and the Minister of Home Affairs. Expert Committee consisting of well-known figures with backgrounds in banking and law. Workers Committee, which consists of units in Bank Indonesia.

In subsequent developments, Bank Indonesia implemented policies based on 3 (three) principles, namely; Market-oriented policies. With this policy, banking regulations and supervision will be accommodated according to market demand. Islamic banking is not considered a small industry that must be protected until a certain period so that it is ready to compete. Treat fairly.

3) Function of Direction and Implementation

The process of implementing the program so that it can be carried out by all parties in the organization as well as the process of motivating all of these parties to carry out their responsibilities with full awareness and high productivity. In this function, many parties play a role in it. Directions are given in order to carry out plans that have been arranged in such a way as to achieve the expected goals. The implementation is also carried out by agencies related to the development of Islamic banking, such as Bank Indonesia, OJK, DPS and other related institutions.

4) Supervision and Control Function

The process is carried out to ensure that the entire series of activities that have been planned, organized and implemented can run according to the expected targets

²³ Departement of Sharia Economics and Finance, loc.cit.



even though various changes occur in the business environment at hand. According to Article 34 of Act Number 6 of 2009 concerning Bank Indonesia, the supervisory function is no longer under the authority of Bank Indonesia but will be delegated to an independent financial services sector supervisory institution established by Law.²⁴

The regulatory and supervisory functions are delegated to OJK, but not fully assigned to OJK. However, OJK continues to cooperate with BI and has its respective authority in carrying out regulatory and supervisory functions. In relation to the development of the sharia banking supervision system, the development of a Sharia Module Banking Information System (SIP) for Sharia Commercial Banks (BUS) and Sharia Business Units (UUS), monthly BUS reports, Sharia People's Financing Bank (BPRS) Supervision System Bank (RBB) for BPRS as well as outreach and training for Islamic bank supervisors.²⁵ By increase the effectiveness and efficiency of the implementation of OJK's duties related to the supervision of sharia financial institutions, including sharia banking, the OJK Board of Commissioners has established the Sharia Financial Services Development Committee (KPJKS) and the Sharia Financial Services Development Working Team.²⁶

By increase the effectiveness and efficiency of the implementation of OJK's duties related to the supervision of sharia financial institutions, including sharia banking, the OJK Board of Commissioners has established the Sharia Financial Services Development Committee (KPJKS) and the Sharia Financial Services Development Working Team.²⁷

When talking about supervision, there are several principles and methods used in bank supervision, including sharia banking, including: regulation, off-site supervision, on-site supervision, regular contact and communication with banks do not remedial and / or impose sanctions, cooperate with other bank supervisory authorities.²⁸

²⁴ Utary Maharani Barus, op.cit, page 2

²⁵ Ibid, page 56

²⁶ Setiawan Budi Utomo, Peran OJK dalam Pengawasan dan Pengembangan Lembaga Jasa Keuangan Syariah, Paper presented in the Sharia Economic Technical Guidance on PTA Pekanbaru, 18 Mei 2015, page 43.

²⁷ Ibid.

²⁸ Permadi Gandapradja, *Dasar dan Prinsip Pengawasan Bank*, Gramedia Pustaka Utama, 2004, page 8.



In its development, Islamic banking is currently supervised by the Financial Services Authority (OJK) financial institution as previously explained. However, OJK's role in sharia banking supervision is limited and requires the role of another supervisor, namely the Sharia Supervisory Board (DPS).

As stipulated in Bank Indonesia Regulation (PBI) Number 6/24 / PBI / 2004 DPS is a board that supervises sharia principles in the business activities of Islamic financial institutions. In the DSN Guidelines, the DPS working mechanism is described as follows:²⁹ Conduct periodic supervision of Islamic financial institutions under its supervision. Obligated to submit proposals for the development of sharia financial institutions to the management of the institution concerned and to the National Sharia Council. Report the development of the products and operations of the sharia financial institutions that it supervises to the National Sharia Board at least twice in one fiscal year. Formulating issues that require discussion of the National Sharia Council

The Sharia Supervisory Board (DPS) is also required to report the results of its supervision regularly to the board of directors and in carrying out its duties DPS is obliged to comply with the principles of Good Corporate Governance.³⁰

CONCLUSION

The growth of the Islamic finance industry in Indonesia is quite slow, this is due to the lack of the government's role in helping develop the Islamic finance industry. The Islamic banking industry should also be backed up with political will and action from the government. In the development of Islamic banking by the government, it involves several institutions as the means. The scope of cooperation coordination is broad in order to make Indonesia the center of Islamic economics and finance. Some of these institutions include: Bank Indonesia, the Financial Services Authority and the Sharia Supervisory Board. Each institution carries out its role in order to achieve the objectives of developing Islamic banking which have been arranged in a development management. The said development

²⁹ Abdul Mujib, Dewan Pengawas Syariah (DPS) Pada Lembaga Keuangan Mikro Syariah di Wilayah Jawa Tengah, *Az-Zaqrā*, Vo. 9, No. 1 (Juni 2017), page 134.

³⁰ Utary Maharani Barus, *op.cit*, page 8



management has functions, namely: (1) Organizing function, which is mostly carried out by Bank Indonesia, assisted by the Government and related institutions; (2) The Organizing Function carried out by Bank Indonesia is assisted by the Government and related institutions; (3) Function of Direction and Implementation, which is carried out by all related institutions to support the development of Islamic banking in Indonesia; and (4) Supervision and Control functions carried out by OJK in collaboration with Bank Indonesia and the Sharia Supervisory Board (DPS).

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