

# **THE ISLAMIC BANKING: PAST, PRESENT AND FUTURE**

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## **I. Introduction**

The main reason of the Islamic Banking (Bank Syariah) is the revelation which prohibits Moslem from dealing with *riba*. Especially the economic moslem society and the moslem Bankers likes their financial activities clean, legally, and no contradiction with the Islamic law (syariah). Because of the used of Islamic Banking, the business operations will also be conducted without any element of *riba*. Whereas accepting and paying interest is an acceptable and common practice to the communities, those who are used to the conventional banking system may believe that the interest is the 'life blood' of the entire banking system, but in the Islamic Banking system interest's instrument were prohibited in the activities, and that prohibition come from two main sources, the Quran and the Hadits.

One of the most important event which related with interest is the prohibited of *riba*. In addition to this revelations, the prophet on many occasions condemned the taker and giver of *riba*, and the concept of interest in conventional banking where identic with *riba* and it is prohibited in Islam, so that the involvement of Islamic Banking institution were urged to be done.

### **1.1. The Concept of Islamic Banking System**

The term of 'Islamic Banking' means conduct as banking operations in consonance with Islamic teaching. In view of this definition, Islamic banks are not expected to have philosophies and objectives similar to conventional banks. The development of philosophies and objectives are in line with the principles of Islamic business as highlighted in the Quran and Hadits. Islamic business entities are required to engage themselves in legitimate and lawful business, and to fulfill all obligations and responsibilities. All transactions are based on the concept of honesty, justice and equity.

Overspending and wastage are totally prohibited. Wealth must be used in a proper and orderly manner, that is, to help the needs, and transactions must be properly executed.

The Activity and services of Banks are always related as follows:

1. Money exchange businesses
2. Remittance services
3. The usage cheque
4. Investment Deposit
5. Credit Services
6. Credit guarantee
7. International trade facilities

### **1.2. The Principles of Islamic Banking System**

Ismail (1992) in his elaboration on the root of Islamic Banking and finance, perceived that Islam as compraised of three basic elements namely, Aqidah, syariah, and Akhlaq. Aqidah concern all aspects of faith and belief of a Muslim. Syariah is concerned to all forms of practical actions by a Moslem. Akhlaq covers all aspects of Muslim Behaviour, attitude and work ethic with which he performs his practical action. Aspect Syariah can be further divided into two, namely Ibadat and Muamalat, Ibadat is concerned with the practices of Muslim's worship of Allah, where as Muamalat is concerned with the man relationship. Consequently, political, economic and social activities. The Islamic Banking therefore being part of economic activities is linked to syariah principles through Muamalat.

Muslim jurists and scholars have suggested a number of Syariah principles to be adopted by Islamic banks in delivering their products and services. Among the most widely used sharia principles recommended by these scholars are *mudaraba*, *musharaka*, *murabaha*, *bai-muazzal*, *ijara wa-iktina*, *qard hassan*, *wadiah*, and *rahn*. Basically these principles can be broadly classified into four categories as below (Haron, 2001)

**1. Profit and loss sharing principles**

- a. *Mudaraba* or 'profit sharing' or 'trust finance' or investment through self-employed entrepreneur. This basically an agreement between at least two parties, one being as a lender or sometimes known as an investor and an entrepreneur also known as an agent-manager. In the agreement, the investor agree to finance or entrust money to the entrepreneur who is to trade in an agreed manner and than return to the investor the principal and pre-agreed proportion of profits and keep for him self to remainder.
- b. *Musharaka* or Partnership, which is the participating financing. Literally musharaka means joint venture agreement between two parties to engage in a specific business activity with an aim of making profit.

**2. Fees or charges based principles**

- a. *Murabaha* or cost-plus financing or financing resale of goods refers to the sale of goods at a price covering the purchase price plus a profit merging agreed upon by both parties concerned.
- b. *Bai mu'azzal* or *Payment sale* is variant concept of murabaha and in this case the borrower is allowed to defer settlement of payment for good purchased within the period, and in a manner determined and agreed by both parties.
- c. *Ijara* or leasing finance, whereby the bank purchases the asset required by the customer, and then leases the asset to the customers for a given period. The lease, rental and other terms and conditions having been agreed upon by both parties.
- d. *Ijara wa-iktina* or Lease purchase financing; refers to a contract where the bank purchases an asset for the purpose of renting the same to the customer against an agreed rental.

**3. Free Service**

- a. *Qard hassan* this is a benevolent loan that obliges a borrower to repay the lender the principal sum borrowed on maturity of the loan. The borrower however has

the discretion to reward the lender for his loan by paying any sum over and above the amount of the principal.

#### **4. Ancillary Principles**

- a. **Wadiah** or trusteeship; refers to an agreement between the owner of asset and another party. Whereby the owner will deposit and give consent to the custodian to make use of their assets (funds) as long as these assets remain the custodian's hands.
- b. **Rahn** or pledge or pawn. It is a contract of pledging a security and becomes binding when possession of the pledging has taken place. In this principle the ownership of the security is not transferred to the pledgee. The transfer occurs only under certain conditions.

It is worth noting here that some scholars questioned the term profit and loss sharing which was first used by the Council of Islamic Ideology of Pakistan in their report submitted to President Zia in 1980. These scholars urged that neither the entrepreneur nor the other supplier of capital actually 'share' the losses accruing to any particular supplier of capital. In the case of musharaka, for example, each partner only shares the losses in proportion to their share in the financing, whereas the investor will bear all financial risks when mudaraba is used. Instead of profit and loss sharing, the term profit sharing was recommended by these scholars in referring to musharaka and mudaraba (Siddiqi, 1985).

## **II. Islamic banking in the Early years of Islam**

In the early years of Islam which the Islamic community proposed with business and trade with businessmen participating in loans with interest charge, the task undertaken by the Prophet and his companions was to introduce Arabs to Islam, there is evidence to indicate that the development of the Islamic Banking system started from the time of the Prophet.

The only known organized Islamic financial institution which originated during the time of the prophet was called '*Baitul mal*' (the exchequer of an Islamic state or



public treasury). Although the mosque was used as the treasury by the prophet it was Umar, the second caliph who organized the establishment of *baitul mal* and operated it as a separate entity (Ra'ana, 1991). The revenue of *Baitul mal* came from two sources, primary came from Zakat (alms or wealth-tax), *kharaj* (land-tax), jazia (poll-tax), custom duties, tolls and *sodaqoh* (donation), while the secondary source comprised of property with no known owner, the property of apostates, and estate of deceased person who has no legitimate heirs. Funds collected by *Baitul mal* were channeled into two board categories of expenditure, which are claimed in regard to state responsibilities such as the expenses for the army and salaries for state officials, and the second was to finance activities for the publics benefits such as constructions of roads and water supplies (Siddiqi, 1948 and encyclopedia of Islam 1971 in Haron, 2001).

In line with its objective of managing the financial affairs of the Islamic state, the *baitul mal* did not generally accept deposit from the public nor gave loans to those in need. There is however, evidence indicates that *baitu mal* have extended loans to certain individuals. For example, as reported in Muwatta Imam Malik, Caliph Umar's sons Abd Allah and Ubayd Aliah received loan the *baitul mal* which they used, on their way back to Medina, for trading and consequently earned profits. Caliph Umar declared this transactions *mudaraba* (profit-sharing) and requested his son to gave half of the profits to *baitul mal* (Council of Islamic Ideology of Pakistan, 1983).

In the absence of state deposit taking institutions, the task where keep other people's money and valuable items was provided by trustworthy individuals. For example, the Prophet himself was one of the individuals trusted by the people. The prophet remained as custodian of other people's properties until his migration to Medina. Before his departure, he assigned Ali (later known as Chaliph Ali Le the fourth caliph) to return all the deposit to their rightful owners.

Another trustworthu individual who provided deposit facilities to the public during the early year of Islam was AZ Zubair ben Al Awwam. Az Zubair is said to have held deposits amounting to 2,200,000 million dirhams. He was credited as the first person who applied the Islamic principle of 'qard' or 'loan' in the Islamic banking

system. According to Homound (1985) Az Zubair was a person of sagacity and intelligence who preferred to accept deposits on the principle of qard rather than the principle of 'wadiyah' or trust.

The Islamic Banking concept pioneered by a few activities in the early years of Islam failed to extend to become a complete banking system. The so called dark ages which swept the European Continent between the fifth to the tenth century, also had a significant impact upon muslim countries. The revival of commercial and economic activities in European countries commencing from the twelfth century saw the emergence of the conventional banking system. This new system expanded rapidly not only in Europe but other parts of the world. Through trade activities and colonization, this system later gained footing in Muslim countries as well.

### **III. Islamic Banking in the New Era**

Since Islam prohibits interest in all forms of kinds, it is obvious that elimination of interest from the economic and banking system became the most popular topic among contemporary Islamic scholars. In fact the legality of interest was discussed by Abduh and Rida in Al Manar, a Cairo based magazine of the early 20<sup>th</sup> century. The discussions of the importance for muslims to have interest-free financial institutions became intense especially in the sixties and seventies.

The first experimental local Islamic bank was established in the late 1950s in a rural area of Pakistan that charged no interest on its lending (Wilson, 1983). The establishment of Mit Ghamr Local Savings Bank marked a new milestone in the revolution of the modern Islamic banking system was considered to be the most innovative and successful experiment with interest free banking. The Mit Ghamr Local Saving Bank was provided banking services such as deposit accounts, loan accounts, equity participation, direct investment, and social services. Although these services are considered basic banking services, it was nevertheless sufficient to meet the banking needs of the surrounding community. Although these Islamic banks principal and free-interest operating successfully but in the year of 1967 was closed because of the

political reason. In the year of 1965, S.A. Irshad in Karachi Pakistan was also build the Islamic Bank but its not developed because of mismanagement and its without control and guides from the otorized bank. Although Islamic Banking undeveloped, but it is not affect to the applied motivation of Islamic Banking pricipal in the modern financial activity. Since these, the Islamic Bank in Midlle East was develop rapidly (Haron, 1983).

The Islamic Bank in the last three decade was develop rapidly. Iqbal and Mirakhor (1999) stated that during that time the development of Islamic Bank was classified into three period, which were:

- b. The Development of conseptual framework periode (1950 – 1975)
- c. Experimentation period (1975 – 1990)
- d. Introducing and operation expanding area period (1990 – present)

There are many activities were done in the first period, such as seminars, discusses, and study conducted by the economics, bankers, and the lawyers. The topics which discussed generally about the riba, economic morality, and banking practices which relevant to the Islamic law (syariah).

The second period; The entrepernuer would like to applied the Islamic banking concept through the establishment of Dubai Islamic Bank and Dar Al-Maal Al-Islam in United Arabs Emerates in the 1975 in that period also (1980) Pakistan and Irak was conducted the legality of Islamic banking system nationally. In the mean while some financial institutions in the West countries started to accommodate the Islamic banking needs and the investor which like to financial transactions with the Islamic way.

The third period, the success and stabilities of the development Islamic Banking were make attention of many parties. The Islamic banking business institutional as nationally growing fast in the year 2000 which about 176 banks/financial institutions which distributed in more than 30 countries with the total amount UD\$ 147,7 trillion. In this period the standardized was conducted to the bank product, accounting system and the development of money market instruments for both domestic or internationally for several transaction and investment needs purposes.

As collectively, the idea of involvement Islamic bank as international come from the world conference among the Islamic countries, in Kuala Lumpur, Malaysia in April 21–27, 1969 which attended by 19 countries. This conference result was decided in several items as follows (Zuhri, 1996):

- a. Every profit must accordance to the lose-profit law, if not it will be include as riba, and riba is prohibited (haram).
- b. It was suggested to create Islamic bank whit clean from riba system as soon as possible.
- c. In the main while waiting for the establishment of Islamic bank, the conventional banking permitted to operation, but it is only the emerge time.

In purpose to developed of the Islamic banks in Moslem countries, in December 1970, in the meeting of Foreign ministries of Moslem conferences association in Karachi, Pakistan, proposed the study of the establishment of Islamic bank, and these study comprised about the establishment of International Islamic bank for trade and development, and this studied was conducted by expert from eight Islamic countries (Sudarsono, 2003).

On July 1973, the expert committee come from oil producers Islamic countries have meet to discuss about the establishment of Islamic bank, and in 1974 was agreed by all members to establish the Islamic Development bank (IDB) with started capital 2 trillion dinar (Antonio, 2001)

The involvement of IBD motivated the other Islamic countries to establish the Islamic financial institution. In the last period 1970's and first 1980's the Islamic financial institution were emerge in Egypt, Sudan, and other part of Middle East, Pakistan, Iran, Malaysia, and Turkey. Beside that the Islamic banks was also involve in non-Moslem countries such England, Denmark, Bahamas, Swiss, and Lexemburg (Metwally, 1995).

The development of Islamic banks motivated the conventional bankers to offering the Islamic banking product. It could be shown from offering Islamic banking products of the several conventional banks. Such as '*Islamic Window*' in Malaysia, The

*'Islamic transaction'* in Egypt Bank branch, and *'the Islamic services'* in several Trade bank branches in Arab Emirates. While the Citibank offer *'city Islamic Investment Bank'* in 1996 in Bahrain which wholly/owned subsidiary, while City Chase Manhattan was developed their product in Leasing liquidity Program (CML) for the fulfillment of overnight and short term investment needs that allowed (halal). The products of Islamic investment banking also offered by conventional fund managers such as The Wellington Management (USA); Oasis International Equity Fund from Flemings Bank in England (Arifin 2002), Hongkong Shanghai Banking Corporation (HSBC-London) and ANZ Bank (Melbourne-London). From the side of customer syariah banking service recorded some multinational companies such as KFC, Xerox, General Motor, IBM, General Electric, and Chrysler (Arifin 2002).

#### **IV. Islamic Banking in Indonesia**

##### **4.1. The Establishment of Syariah Bank (Islamic Bank) in Indonesia**

The concept to establish Islamic bank (Syariah Bank) in Indonesia actually has been emerged since mid-1970s. This concept was discussed in the national seminar on Middle East-Indonesia Relationship in 1974, and in 1976 in international seminar that held by Lembaga Studi Ilmu-Ilmu Kemasyarakatan (LSIK) and Yayasan Bhineka Tunggal Ika. But there were some reasons that impede the realization of this idea:

1. The Syariah bank operation that adopt profit sharing principle not yet arranged, and therefore not appropriate with Principle Act of Banking that prevailing, namely No.14/1967.
2. Syariah bank concept from political aspect has ideology connotation, was part of or related with Islamic State Concept, and therefore not desirable by the government.
3. Still questioning, who will invest their capital in this form of venture, while the establishment of new bank in Middle East still prohibited, such as the limitation of new branch office establishment of foreign bank in Indonesia.

Eventually the concept of Syariah Bank were emerged since 1988, when the government releasing October Policy Package (Pakto) that contain the liberalization of banking industries. Many religion figures (ulama) in that time tried to establish the free interest bank, but no one of legal set of means that can referred except the bank could determined the interest by 0%. After the recommendation from ulama workshop about bank interest and banking in Cisarua, Bogor in 19-22 August 1990, the result of this workshop discussed further in the National Meeting (Munas) IV Majelis Ulama Indonesia (MUI) that held in Sahid Jaya Hotel, Jakarta 22-25 August 1990. Based on the mandate of Munas IV MUI were formed such work group to established the syariah bank of Indonesia (Sudarsono, 2003)

The first Islamic Bank in Indonesia was Bank Muamalah Indonesia were born as the work result of MUI Banking team above, the establishment certificate of PT Bank Muamalah Indonesia signed in November 1, 1991. In this establishment were collected shares buying commitment by Rp.84 billion. At November 3, 1991, could be fulfilled by capital commitment total that first deposited by Rp. 106 billion.

Then the Act No.7 year 1992 about banking at Clause 13 article c expressed that one business of Bank Perkreditan Rakyat (BPR) provided the funding for the customers based on profit sharing principle that according to the provision in the regulation that determined by Government Regulation. Responding to this article, government in October 30, 1992 releasing Government Regulation (PP) No. 72 year 1992 about bank based on the profit sharing principle and announced at October 30, 1992 in the state sheet or Republik Indonesia No.119 year 1992 (Sudarsono, 2003).

The existence of this syariah banking was understood as profit sharing bank. But this syariah bank must also submit to the general banking regulation that was conventional-based. Therefore the syariah banks tend to adopt conventional banking products that make appropriate to syariah with limited variation of products, therefore not all of community needs were accommodated and the product not competitive toward all of conventional bank products.

With PP No. 72 year 1992 (article 6) that was one of implementation regulation from Act No.7 year 1992 determined that:

- General Bank or Bank Perkreditan Rakyat that their business purely based on the profit sharing principle were not allowed to running business without profit sharing principle.
- General Bank or Bank Perkreditan Rakyat that their business not based on the profit sharing not allowed running business in profit sharing principle.

So the development of Syariah Bank become limited because the growth line of syariah bank office network just trough the extension of current syariah bank office or opening new branch that have high relatif cost. That situation make Bank Muamalat Indonesia become the single player in the market with some problems especially that related with managing liquidity and patner cooperation.

In the year 1998 emerge Act No.10 year 1998 about the changes of Act No. 7 year 1992 about banking were some changes that give some bigger chance for the development of syariah banking. From this Act can be conclude that the syariah banking were develop with purpose such as follow:

- a. Fulfilling the banking service needs for the community that now accept interest concept. With the determining of syariah banking that go along with conventional banking system, mobility of community funds can be held broadly.
- b. Opening the opportunity of funding for business development based on the partnership principle. In this principle, the concept that implemented is *mutual investor relationship*. While in the conventional bank, the concept that implemented is *debitur and creditor relationship*.
- c. Fulfilling the needs for banking products and services that have comparative benefit namely the negation of perspectual interest effect, limiting the unproductive speculation, and the funding addressing to little business and more emphasizing the morale concept.

With the prevailing of Act No. 10 year 1998, the legal foundation of syariah bank become clearer and stronger, from the institution sector or syariah operational

basic. Then with the prevailing of Act No.23 year 1999, Bank Indonesia can implemented the monetary policy based on the syariah principle. Both of Act was the legal foundation for the national banking to began implementing the dual banking system, namely there are conventional banking system and syariah that running parallel.

The implementation of dual banking was based on the characteristic from each system. In the syariah banking system, moral values and syariah principles were underlying their operational activities. This is differentiated this system with conventional banking.

1. The arrangement of institution aspects and business activities and syariah bank was noted in the article 1 subsection 3 Act No. 10 year 1988. This article explained that general bank running business with syariah principles done by opening work unit and special branch office namely syariah business unit and syariah branch office. Conventional general bank that will open syariah branch office must implement:

- Creating syariah business unit (UUS)
- Having syariah supervision board that placed by National Syariah Board ( DSN), and
- Providing work capital that collected by bank in such bill in the name of UUS that use to pay office cost and the other things that related with syariah bank branch office operational or non-operational activities.

2. The provision of moneter instrument clearance and money market among bank were explained in Act No. 23 year 1999 that to anticipate the development based on syariah principle, so the task and function of BI must accommodated the syariah principles. This can be saw in the article 10(2) determining that the implementation of BI duty in the monetary controlling can be done based on the syariah principle. Beside that in the article 11 determined that in their function as the leader of last resort BI can give funding based on the syariah principle for longest time period 90 days to the syariah bank to cope with any difficulties of short term funding of related bank. Related with this case BI have arranged the provision that related with operational of syariah bank namely:



- The provision of Giro (check for deposit only) of Minimum Obligation for conventional bank that opening KCS
- Clearance provision
- Provision of money market among bank based on the syariah principle
- Provision of wadiah BI.

#### **4.2. The Instruments that used by Islamic Bank**

The instruments that used in the managing liquidity when the syariah bank was single player namely is the first time used SPBU (Valuable Letter of Money Market) mudarabah and Bai' al Dayn. Because the development of syariah bank so monetary authority provided replacing means in managing liquidity, namely Money Market Between Syariah Banking (PUAS), and Wadiah Union of Bank Indonesia (SWBI). (Team of Syariah Banking development, 2001)

##### **1. Valuable Letter of Money Market (SBPU) Mudarabah**

Valuable Letter of Money Market (SBPU) Mudarabah used to help syariah bank to cope with any temporary liquidation gap because of mismatch in the funding, or cope with the possibility of clearance losing and as the fund source for the funding activities of syariah bank. Through the selling of Valuable Letter of Money Market (SBPU) that syariah bank customers owned to BI based on the outcome sharing principle. The provisions of SBPU are as follows:

- a. The customers of syariah bank are as high as nominal value between discount with maximum time range 180 days.
- b. Syariah bank can buy back SPBU in the due time by the nominal value.
- c. For the using of this SPBU facility syariah bank can give some reward in the form of outcome sharing that mirroring from the operational revenue of syariah bank, and calculated regularly every 90 days.

## **2. Bai' Al Dayn**

Bai al Dayn or debt's sales -purchase was refer to the funding for debt. In this principle the funding made based on sales-purchase of trade document and this funding used for expenses, trade and saving. The decision of Syariah Supervision Board (DPS) in the early operation of syariah bank based on the emergency condition where the syariah bank still the single player, syariah bank allowed to use excess or idle fund with use al Dayn means. The al-Dayn provision were as follows:

- a. The Customer that has accept the sale-purchase facility from Syariah bank will release promissory note, while Syariah bank can not release the promissory note, so the promissory note will become the underlying transaction to receive from conventional bank.
- b. The compensation for the fund placing and taking still according to the computation that determined by counterpart (conventional bank) where the syariah bank (in that time) must optimized their fund excess and entering as the new entrant with system that still not familiar for conventional bank.

### **4.3. Money Market Among Syariah Bank (PUAS)**

Money market among syariah bank used means of Mudarabah Investment Certificate Among Bank (IMA) that have maximum period 90 days after the issued by Syariah Bank Head office or Conventional Bank Syariah Unit. The provisions of IMA were as follows:

- a. The take over of IMA certificate just can be done by first investment bank, while second investment bank was not allowed to take over/undertake the certificate to another bank until the due time.
- b. The payoff of IMA in the early month calculated based on the realization of outcome of mudarabah investment deposit in the released bank before distributed according to the time period.

#### **4.4. Wadiah Certificate of Bank Indonesia**

In order to make open market operation based on syariah principle can be running well, so the moneter authority creating such controlling instrument of circulated money according to Syariah principle in the form Wadiah Certificate of Bank Indonesia (SWBI). SWBI can be entrusting the fund from short period for bank that found some excess of liquidity. The SWBI provisions were as follows:

- a. The fund amount that can be entrusted at least RP. 500.000, 00 and over it with Rp 50.000,00 fold and the SWBI time period is one week, two weeks or one month that stated in total days.
- b. Bank Indonesia gave bonus to the syariah business unit and bank in the due time of funds. The amount of bonus will be calculated with reference of PUAS payoff indication level, namely average weighted from IMA certificate payoff indication level that happened in PUAS in the date of fund entrusting.

#### **4.5. The Organizational Structure of Syariah Bank**

##### **a. Syariah Board Structure**

The different structure between syariah bank from conventional bank is the requirements for the existence of Syariah Supervision Board that have task to supervising the bank operation and the products according to the syariah provisions. Syariah Supervision Board occupied the position that aligned with Commissioner Board in each bank. This is purposed to guarantee the affectivity from every opinion that gave by Syariah Supervision Board. Therefore, the determination of Syariah Supervision Board (DPS) members usually held by general meeting of shareholders, after the DPS member accept recommendation from National Syariah Board (DSN). DSN is MUI autonomy body that known ex-officio by MUI chief. While the implementation of DSN daily activities held by DSN Daily Implementor Body.

Based on the report of DPS to each syariah finance institution, DSN can gave any warning if the related institution deviate from guiding line that have been determined. If this institution ignored the given warning, DSN can submit

recommendation to the authorized institution such as Bank Indonesia and Financial Department to give sanction.

Whereas the function of Syariah Supervision Board were as follows:

- Supervising the daily operation of bank, in order to make sure that the operation appropriates with syariah provisions.
- Prepare the regular report (usually annually) that supervised bank have run appropriate with syariah provisions.
- Studying and making recommendation of new products from supervised bank.

**b. Syariah General Bank Structure and Syariah Branch from Conventional Bank**

In the syariah general bank structure and Syariah BPR must have DPS that positioned in the head office of this bank. DPS position in the Syariah General Bank Structure is under General Meeting of Shareholders (RUPS) or their position aligned with Bank Commissariat Board.

**V. The Future of Islamic Banking**

With reading the opportunity of banking world it is necessary to develop it according to the age demand and community needs. The banking development was done by held banking with Islamic system, the system that based on the God concept and deed to doing any improvement continuously to answer the age challenge. So this concept can be implemented in the real business life. Therefore it is necessary to have future strategy of Islamic banking.

**5.1. Islamic Banking Transformation**

For a country that has Moslem majority of population it is great opportunity to develop the Islamic banking. It also happened in Indonesia as can saw from the Islamic banking development in the recent time and the bright prospect for this concept.

The Islamic banking development concept in the future must be arranged with vision for making Islamic banking as the economy artery which blessing. It means that

Islamic banking can play their role as the intermediate institution and their every activity always increase goodness for every parties (blessing).

To achieve this vision, Islamic-banking mission were as follows:

- a. Become a professional and reliable finance institution so it will be place for accumulation process of community capital.
- b. Become a facilitator in the community economy development through their role as capital source that easy and cheap and become a patner for the other economy player.
- c. Become economic locomotive that based on syariah. Islamic banking should support to the development of economic sector based on syariah, such assurance, reksadana, and funding company.
- d. Build wide networking, both in national and international scale.

The prime strategy in the development concept of Islamic banking in the future is transformation. This transformation should conduct by internal party of Islamic banking. While the transformation process that needed were as follows (Hilman dkk, 2003)

#### **5.1.1. Transformation from syariah product to syariah corporate**

In the future it is not adequate to just base on the syariah products. The community will not just appraise the products of Islamic banking but also the management system, personel profile, and the service delivery. In the other word, Islamic banking means all of operational aspect that runs truly based on syariah. As an institution that honest, open, and implemented careful principle, professional and customer-oriented characteristic.

#### **5.1.2 Transformation from sentiment to professional rational**

One of the weakness of Islamic banking is there were a lot of Islamic banking sectors that look at the loyal community of syariah or the people who adhering strictly to syariah, it means the syariah banking sector prefer to found

customer that have emotional sentiment than customer with rational-professional consideration. The content of communication still appearing many issues of legal-illegal or usury issue and not presenting the prominence of value content that can achieved by the customers.

This approach was not reliable for long term. There were two reasons of it. First, the amount of people that adhering strictly to religion was little if compared with floating market. This floating market generally will find banking that has higher value. Second, when there were a lot of banking approach, the usury issues were not relevant. The competition will slip to the service that can provide higher value and better service. Therefore in the future syariah banking must package the communication that more emphasized to the rational aspect in the decision maker process of customers. The legal-illegal issue and usury issue must secondary issue while the primary issue was professionalism of banking and service that can be accepted by the customers.

#### **5.1.3 Transformation of Moslem customer to General customer**

Islamic banking must open themselves proactively to “pick up the ball” of general customer and non-Moslem. Therefore the communication that held not just usury issue, but professional issue. If for this time many slogan/motto have Islamic nature, such as the terms blessing (berkah), legal (halal), syariah and etc so in the future it must be completed with general terms and popular such as service, reliable, safe, advantage, useful, profesional, etc.

#### **5.1.4. Transformation from investment motive to capital accumulation**

If the interest in the conventional bank was too high or ratio of outcome sharing that accepted by Islamic banking customer was too high, funds will become expensive and the motivation of community to deposit their money

were just for investment. Whereas the purpose of bank establishment were to make capital accumulation to drive the economic. In the Islamic law point of view, the worth investment is business sector because it will open the work opportunity, managed the human resources, and increasing the outcome. Therefore in the future, syariah banking must pioneering "cheap credit" giving so it will motivated the community to invest in the business sector.

## **5.2 Creating the Safe and Reliable Syariah banking**

In a global competition every business required to be sensitive toward any customer needs and demand. The demand, brand image, and market share is the prime position in the business. It also prevails for new banking business.

Islamic banking is one financial intermediate institution that also required to fulfill three criteria above in creating their business. To support this it is necessary for strict planning, organizing, implementing and controlling in every business creating.

Beside that, the Islamic banking must give safe and comfortable service for the depositor and the bank themselves toward the probability of loosing. The step for creating the safety and comfortably for every shabibul maal is strengthening the three-business foundation that must implemented by syariah banker.

Before the development concept implemented, a Islamic banker must think the independence concept that means as the capability of syariah banking not to depend on third party outside the system (in this matter were depositor, bank, and businessman). This third party might also the parties that will reinvest their fund. It will be worried to burdening the financial position of syariah banking from the liability sector. Therefore, the final step is to strengthening the business foundation, namely creating independence in the Islamic banking financial sector.

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