What’s up with Islamic Banking in Indonesia?

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Zakaria Bahari\(^2\)
Zahri Hamad\(^3\)

Abstract

Indonesia is the largest Muslim country in the world and thus has huge potential for the development of Islamic (i.e., Syariah) banking. In 1992, the first Islamic bank—Bank Muamalat Indonesia—officially opened. Since then, several other Islamic banks, either in the form of a full-pledge system or in the form of a dual banking system, were opened. These banks show significant growth if viewed in terms of asset development, financing, and the number of institutions. However, the Islamic bank's market share is only 3.2% of the overall banking industry market share in Indonesia. This market share is too small relative to the size of the Muslim population in Indonesia and compared with the market share of Islamic banking in other Muslim countries. This situation suggests that Islamic banking is only an alternative, not an obligation, for Muslims in Indonesia. The current low share of this market is due to the lack of consumer knowledge about Islamic banking and the lack of government and religious leader support of it.

**Keyword:** Islamic banking, Government regulations, Religious institutions, Market share, Indonesia

Introduction

The purpose of this paper is to review relevant literature about the development of Islamic (i.e., Syariah) banking in Indonesia. This development is viewed in terms of

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assets, financing, number of institutions, and market share. Islamic banking in Indonesia is a new phenomenon in the global banking industry. Modern Islamic banking began in the form of rural savings in Mit Ghamr, Egypt in 1963. In the 1950s and 1960s, Islamic banking was only an academic dream, of which few people were even aware (Chapra and Khan, 2000). In the 1970s, Islamic banks held 2% of the market share in Muslim countries (Hassan, 1999), thus this decade is viewed as the rise of Islamic banking in the world (Siddiqi, 1996). 1970 was also the peak year of awareness in Muslim countries, particularly after several countries gained independence and oil wealth. In 1975, the Islamic Development Bank was established, and it proved to be the impetus for the establishment of other Islamic commercial banks such as Dubai Islamic Bank, Faisal Islamic Bank of Egypt, Faisal Islamic Bank of Sudan, and Kuwait Finance House (Dusuki, 2013).

In the early years of the 1980s, Islamic banking extended far beyond its previous prevalence. It appeared not only in Muslim countries but also became more common and more widely accepted in non-Muslim countries (Ebrahim and Joo, 2001; Alam and Shanmugam, 2007; The Banker, 2011). By the 1990s, 50 Islamic banks existed around the world (Hussein, 1991). Thus, the Islamic banking market share grew from around 2% in the 1970s to ~15% in the 1990s (Aggarwal and Yousef, 2000). During the 1980s and 1990s, the steady expansion of Islamic banks was the hallmark of the Middle East’s financial landscape. By the 2000s, more than 180 financial institutions in 60 countries operated based on Islamic regulations, and they managed assets exceeding US$ 200 billion. Islamic banks are playing an increasingly significant role in their respective markets (Bashir, 2003, Amin 2010). Currently, at least 300 Islamic financial institutions are spread across 75 countries, with assets of not less than US$ 1–2 trillion (The Banker, 2011). Ismal (2011a) reported that the Islamic banking industry has grown progressively at an average rate of around 10–20% per year. These developments show that the Syariah system, which avoids usury, speculation, and profit and loss sharing, has helped Islamic banking face instability in the economy (Farahani, Yazdan, and Hossein, 2012).

Indonesia is no exception to the burgeoning development of Islamic banking. The number of Muslim citizens in Indonesia is huge, thus there is vast potential for Islamic banking to grow and develop. In 2010, the population of Indonesia was 237,556,633 people (mostly concentrated in Java) (Badan Pusat Statistik, 2012). Of this total, around 204 million people are Muslim. Thus, Indonesia has the largest Muslim population in the world.

Government regulation No. 23 of 1999 and amendment to regulation No. 3 of 2004 stated that Indonesia must use a dual banking system, which is the conventional system and Islamic-based system. The Indonesian government recognized the Islamic banking system as one of the financial systems in Indonesia and objected to banking regulation...
No. 14 of 1967, which only recognized the conventional system. Regulation No. 7 of 1992 and its amendment, which gave banks greater opportunity to maintain their activities with the allowed use of the dual banking system, became regulation No. 10 of 1998. The existence of the dual banking system allows conventional banks to open Islamic business units. These regulations were the momentum that provided the opportunity for conventional banks to set up Islamic banking in addition to retaining the conventional system. Unlike regulation No. 7 of 1992, in which Islamic banking terms were stated vaguely, regulation No. 10 of 1998 clearly pronounced that "the bank based on profit sharing principle" has been changed to the "bank based on Syariah," which is abbreviated as "Syariah banking."

As in other Muslim countries, Islamic banking in Indonesia underwent progressive development that was driven by the large Muslim population, support from the government, banking regulations, and the role of the ulama, Muslim scholars, and Islamic organizations (Ismal, 2011). Government support is evidenced by the issuance of a number of regulations, as described above. Support also came from scholars and Islamic organizations. In early 2004, the Indonesian Ulama Council (MUI) issued a fatwa that bank interest is haram (forbidden by Islamic laws). This was followed by a Muhammadiyah fatwa in 2006, which also stated that the interest rate is haram. In 2008, the government issued a more comprehensive Islamic banking regulation (regulation No. 21 of 2008), which was followed by National Sukuk regulation No. 19 of 2008. With the enactment of these regulations, the legal basis for Islamic banking and the associated financial system became more pronounced, thus providing greater opportunities for the development of Islamic banking in the future. It made Islamic banking free to move into the national banking industry (Ismal, 2011).

**Development of Islamic Banking in Indonesia**

Development of Islamic banking in Indonesia began in 1991 with the establishment of Bank Muamalat Indonesia (BMI), and it officially began operating in 1992. However, according to Rae (2008), the rapid development of Islamic banking began only after 1998. Islamic banking gained attention after a series of economic crises occurred, such as the global economic crises in 1998 and 2009. The global economic crisis of 1998 was felt by countries in Asia, including Indonesia. The global economic crisis in 2009 was felt by almost all countries of the world, especially the United States. Based on reported data, conventional banks experienced greater negative effects than Islamic banks as a result of the global economic crisis (Lembaga Penyelidikan Ekonomi dan Masyarakat, 2010; Dusuki, 2013). This is because the guidelines set by the Islamic investment approach make Islamic banks less at risk than conventional banks (Tobin, 2009). Ahmad and Hassan (2007) stated that banking based on Islamic principles will have a positive impact on saving and investment, the rate and pattern of growth, allocative efficiency, the stability of the banking system, and the stability of the
economic system. This explanation led to better acceptance of Islamic finance or Islamic banking among Muslim, as it provides an alternative to the conventional system (Iyer, 2009; Smolo, 2009).

In 2000, Indonesia had two Syariah banks (BUS) and three Syariah business units (UUS). By 2005, the number of UUS was 19. Islamic banking assets increased from Rp 479 billion in 1998 to Rp 30,145 billion at the end of 2007 (Bank Indonesia, 2012). Thus, 1998–2007 were the honeymoon years, during which drastic growth of Islamic banking in Indonesia occurred (Table 1).

Table 1 shows rapid growth in the number of institutions, assets, third party funds (DPK), financing, and market share between 2003 and 2012. DPK increased from Rp 5,725 trillion in 2003 to Rp 147,512 trillion in December 2012. The role of DPK in Islamic banking is huge, as nearly 90% of the funds in Islamic banking are derived from DPK deposits. These data show that the growth of Islamic banking assets is highly dependent on the growth of DPK. In 2008 (31.6%), the percentage increase was slightly lower than that in 2007 (35.5%); as a result of the low percentage of this increase, the growth in total account DPK also experienced a decline. The increase in the percentage of account holders in 2008 (29.93%) was lower than that in 2007 (42.62%). Overall, total Islamic banking assets in Indonesia at the end of 2012 were Rp. 195,017 trillion. This amount is far below the amount of conventional banking assets, which was Rp. 4,262 trillion. At the same time, however, Islamic banking financing increased from 36.7% in 2007 to 42.0% in 2008 (Figure 1). However, this increased funding was not supported by the increase in DPK (see Table 1). This means that the finance-to-deposit ratio (FDR) reached 104% in 2008 (Bank Indonesia, 2012). Development of Islamic banking users (or Islamic banking account holders) can be seen in Figure 1.

Table 1. Development of Islamic Banking in Indonesia (2003–2012)

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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<tbody>
<tr>
<td>Number of BUS</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Number of UUS</td>
<td>8</td>
<td>15</td>
<td>20</td>
<td>20</td>
<td>25</td>
<td>27</td>
<td>25</td>
<td>23</td>
<td>23</td>
<td>24</td>
</tr>
<tr>
<td>Number of BUS and UUS offices</td>
<td>299</td>
<td>401</td>
<td>504</td>
<td>531</td>
<td>597</td>
<td>953</td>
<td>998</td>
<td>1477</td>
<td>1737</td>
<td>2262</td>
</tr>
<tr>
<td>DPK (Trillion Rp)</td>
<td>5,725</td>
<td>11,862</td>
<td>5,582</td>
<td>0,672</td>
<td>8,012</td>
<td>6,852</td>
<td>52,271</td>
<td>6,036</td>
<td>115,415</td>
<td>147,512</td>
</tr>
</tbody>
</table>
Leaders also have profoundly influenced the development of Islamic banking in other countries. In addition to the lack of community support, readiness of the Islamic development and socialization of Islamic banking. Kurniawan (2010) documented the banks (Hassan, 1999).

Indonesia, where the movement and support for the establishment and development of Islamic banking in Indonesia is limited involvement of government funds. This because the government has placed more funds in Islamic banks.

Source: Statistik Perbankan Syariah 2003–2012 (Bank Indonesia, 2012)

DPK (Third Party Funds), BUS (Syariah bank unit), UUS (Syariah Business Unit)

**Figure 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>2003</th>
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<th>2012</th>
</tr>
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<tbody>
<tr>
<td>% DPK growth</td>
<td>-</td>
<td>107.2</td>
<td>31.4</td>
<td>20.445</td>
<td>35.5</td>
<td>31.6</td>
<td>37.7</td>
<td>45.1</td>
<td>51.8</td>
<td>27.8</td>
</tr>
<tr>
<td>Financing (Trillion Rp)</td>
<td>5,530</td>
<td>11,490</td>
<td>5,232</td>
<td>7,944</td>
<td>8,195</td>
<td>46,886</td>
<td>8,181</td>
<td>102.655</td>
<td>147,505</td>
<td></td>
</tr>
<tr>
<td>% Growth</td>
<td>-</td>
<td>107.8</td>
<td>32.6</td>
<td>34.2</td>
<td>36.7</td>
<td>42.0</td>
<td>22.8</td>
<td>45.4</td>
<td>50.6</td>
<td>34.2</td>
</tr>
<tr>
<td>Asset BUS and UUS (Trillion Rp)</td>
<td>7,859</td>
<td>15,326</td>
<td>10,880</td>
<td>6,722</td>
<td>6,538</td>
<td>9,555</td>
<td>96,090</td>
<td>97,519</td>
<td>145,466</td>
<td>195,017</td>
</tr>
<tr>
<td>Share BUS and UUS (%)</td>
<td>0.65</td>
<td>1.20</td>
<td>1.46</td>
<td>1.63</td>
<td>1.77</td>
<td>2.14</td>
<td>2.70</td>
<td>3.20</td>
<td>4.19</td>
<td>4.60</td>
</tr>
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**Figure 1. Increase in the number of Islamic banking account holders in Indonesia from 2005 to 2012 (Source: Statistik Perbankan Syariah 2003–2012 (Bank Indonesia, 2012))**

Figure 1 shows the growth in the number of Islamic banking account holders from 2005 to 2012. The increase from 2006 to 2009 was small, but in 2009 the upward trend increased, and it continued to increase substantially until the end of 2011. However, the magnitude of the increase declined in April 2012. Large and small fluctuations in the number of Islamic banking account holders can be seen in Figure 2.
Figure 2. Percent growth in the total number of Islamic banking account holders in Indonesia from 2005 to 2012 (Source: Statistik Perbankan Syariah 2003–2012 (Bank Indonesia, 2012))

The percentage of users tended to fall from year to year, except in 2010 when an increase occurred due to the addition of five BUS. The increase in 2011 was higher than the increase in 2010. In April 2012, however, the percentage increase was only 12.96%. These data suggest that the number of people choosing Islamic banking is leveling off (i.e., market saturation has occurred). According to Karim (2008), out of every 200 people using a consumer bank in Indonesia, only one is using the service of a Syariah bank or is a Syariah bank account holder. This means that Islamic bank account holders account for only 0.5% of the total bank account holders in Indonesia. Although the MUI released a fatwa on illegal interest in 2004, it did not have a significant impact on adding consumers to the Syariah system. Thus, the number of consumers who transferred their money from a conventional bank to an Islamic bank did not meet the expectation (Abduh and Omar, 2010). According to Wahyuni (2009), the MUI fatwa increased the DPK by only 25% from the previous value, and it had no effect on increasing the total assets of Islamic banking.

Market Share of Islamic Banking

In the period from 2003 to 2012, Islamic banking in Indonesia showed positive development in terms of asset growth, DPK, and number of institutions. In fact, the average growth of Islamic banking, which was around 47% per year, was higher than that of conventional banking, which was only around 15–20% (Bank Indonesia, 2012). However, if viewed from the overall market share, the contribution of Islamic banking is still quite small compared to that of conventional banking. After two decades of
Islamic banking operation in Indonesia, its market share is only 3.2–3.5% of the total banking market share of Indonesia (Figure 3). This market share is very small relative to the number of Muslims in Indonesia, as the population of this country is dominated by Muslims (Amin, 2010).

**Figure 3**


In order for Islamic banking to become an enterprise in the banking industry, the rapid development of Islamic banking assets or institutions must be accompanied by the development of market share. Sula (2011) emphasized that the development of Islamic banking in Indonesia should be followed by increased market share. This is important because market share reflects the performance of marketing, and this may be associated with the position of an enterprise in a competitive setting (Stiawan, 2009). The lack of the expected increase in market share clearly indicates that the development of Islamic banking in Indonesia is still not optimal when compared with its presence in other countries (Muqorobin, 2010). Indonesia was not included in The Banker (2011) review of top Islamic financial institutions, which focused on the 12 largest banking institutions based on total assets. Iran was in first place, followed by Saudi Arabia and Malaysia. Sudan was ranked twelfth. Indonesian Islamic banking has assets of about US$ 12.8 billion, whereas global Islamic banking assets are about US$ 1–2 trillion (Ismal, 2011). This means that Islamic banking in Indonesia contributed only about 0.9% of the global market share of Islamic banking.

**Why Is the Islamic Banking Market Share So Low in Indonesia?**

Why does Islamic banking have such a low market share in Indonesia, the country with the largest Muslim population in the world? Bank Indonesia set the goal that the
Islamic banking market share in 2008 should be at least 5%, as the large Muslim population should be a captive market (Febrian, 2012) and various parties had acknowledged the supremacy of the Islamic banking system compared to the conventional banking system. However, this goal was not met for a number of reasons. Rais (2008) stated that market share is still low due to the limited budget currently available for Islamic banking, whether capitalized or from public sources. The low amount of funds available to Islamic banking is due to the lack of public awareness about the operational activities of Islamic banking and the lack of knowledge and confidence in the Islamic banking system. Thus, people have not chosen Islamic banking to manage their money. Another factor affecting market share is that banking regulations exist that do not fully accommodate Islamic bank operations. Furthermore, Islamic bank networking is still limited, and the number of people with expertise in Islamic banking is low (Antonio, 2009; Ismal, 2011; Muhlis, 2011). Public distrust of Islamic banking also is a factor. The conventional banking system that has long dominated the Indonesian banking market is fused with the community, and the community thus appears to be anti-Islamic banking or conventional loyalist (Karim and Affif, 2008). This is not surprising, as regulation No. 14 of 1967 stated that every bank transaction must be accompanied by interest. According to Rusydiana et al. (2009), the existing paradigm regards money as a commodity in banking transactions, and this premise has been ingrained in the minds and mentality of the people of Indonesia for decades. This incertitude is related to questions that still linger in the minds of Muslims on the Islamic extent of an Islamic bank (Mansor, 2008).

Consumers also are concerned about the size of any profit they might obtain if they become users of Islamic banking. Ismal (2011) showed that depositors will withdraw their money if the Islamic bank cannot generate a profit (benefit) for them. For this reason, the gains and losses will be run in place in Islamic banking. However, in the context of Syariah, gain (profit or benefit) is not only measured by the unit of money. Muslim people must have intention that the process to get gain (profit or benefit) met with the aspects of the Syariah (Rusydiana et al., 2009). Depositors may maintain or withdraw their money for reasons not related to the Syariah issue, such as tangible results, reliability of the bank, and the bank–customer relationship. Thus, withdrawal risk is one of the greatest risks of the Islamic banking system (Abduh, 2011).

Karim and Affif (2008) stated that there are three main types of Islamic banking users: loyalists, floating market consumers, and anti-consumers. Loyalists know that bank interest is a form of usury and therefore illegal. The potential funds of the loyalist group are estimated at Rp 10 trillion. The floating market consists of consumers who rationally view banking, including Islamic banking. They are usually pragmatic and make their choice depending on which one is most profitable for them. Potential funding from this group is estimated to be about Rp 720 trillion. Anti-consumers are those who prefer conventional banks and do not want to move to Islamic banking. The
potential of their funds is not less than Rp240 trillion.

The consumer response is not the only reason for the small market share of Islamic banking in Indonesia. Ismal (2011) stated that the government is also responsible for the lack of funds that has resulted in the slow growth of this market share. On paper the government has shown its support by removing certain regulations and allowing Islamic banking the freedom to operate in Indonesia. However, it is clear that this is not enough. Limited involvement of government funds in Islamic banks is evidence of a lack of government commitment to the development of Islamic banking. In fact, the Hajj Management Fund, which amounts to Rp26 trillion (US$ 2.6 billion), is still housed in conventional banks. The State Owned Enterprises (SOE) fund, with total assets of Rp 2500 trillion (US$ 250 billion), is also predominantly housed in conventional banks. Finally, total government funds, which are kept in a conventional government-owned bank, amount to about Rp1115 trillion (37% of the country’s banking market). If just one of these funds was transferred to the Syariah system, the total assets of Islamic banking would increase significantly. Bank Indonesia (2013) acknowledged that government support is still weak in the placement of funds in Syariah banking. In contrast, Islamic banking has grown quickly in Malaysia, in part because the government has placed more funds in Islamic banks.

Ariff (1998) and Ismal (2011) also suggested that one cause of the low market share of Islamic banking in Indonesia is limited involvement of government funds. This scenario means that the bulk of money invested in Islamic banking comes from citizens. Karim (2010) and Muqorobin (2010) call this situation a bottom-up movement, and it differs greatly from the situation in Malaysia and other Muslim countries such as Sudan, Jordan, Kuwait, Iran, Saudi Arabia, and other Middle East countries, where the movement and support for the establishment and development of Islamic banking comes from the government (i.e., top-down) (Ahmed, 1990; Aryan, 1990; Gierath, 1990; Shallah, 1990; Wilson, 1990). In Iran, Pakistan, and Sudan, the operations of the entire banking system have been converted to the Islamic mode of finance. In the other countries, including Indonesia, the banking system is still dominated by conventional banking institutions, which operate alongside Islamic banks (Hassan, 1999).

Scholars and Islamic organizations in Indonesia also play a role in determining the market share of Islamic banking. The MUI was influential organization in the development and socialization of Islamic banking. Kurniawan (2010) documented the increased profitability of Islamic banks after the MUI fatwa on bank interest and found significant differences between the profitability of Islamic banking in the period before and after the MUI fatwa on bank interest. This MUI fatwa had a positive impact on the development of Islamic banking, but it did not strongly impact consumers; even if they transferred money to an Islamic bank, the amounts were not comparable with those of
consumers who did not move their accounts. Regardless of the amount of money transferred, religious scholars and Islamic organizations still play a significant role in the development of Islamic banking in Indonesia. Muhlis (2011), who conducted empirical studies on saving behavior in Islamic banking in Central Java, found that open debate about the law of illegal or bank interest between two Islamic organizations (the Nahdatul Ulama and Muhammadiyah) was a major factor that delayed the growth of Islamic banking. Actually, this issue is not new, and it is not surprising. Controversy between modernists and the conservative view of usury began in the early development of Islamic banking, and it revolves around the question of what type of *riba* (usury) is strictly prohibited in al-Qur’an (Ahmad and Hassan, 2007). The question is whether the term *riba al-nasi’ah* or *riba al-fadl* is used, but these terms are actually counterparts. As stated in the al-Qur’an (2:275), “God has allowed trade and prohibited riba.” *Riba al-nasi’ah* is related to lending and borrowing, whereas *riba al-fadl* is related to buying and selling. *Riba al-nasi’ah* refers to adding a fixed amount of the debt at the time of the loan payment, and this item is implicitly prohibited. However, the second part of this verse, which relates to trade, shows that trade is implicitly allowed. Trade is allowed, but it does not mean that everything is allowed during the trade. Trade should be free from injustice, which can occur through commodity and currency transactions. *Riba al-fadl* refers to all injustice or exploitation that occurs in the trade. Thus, the type of trade allowed in Islam requires that rigging, uncertainty, and speculation be absent. It demands fair knowledge of the prevailing prices and the quality of goods being purchased or sold on the part of both the buyer and the seller. It necessitates the elimination of cheating in prices or quality and in measures or weights (Chapra, 2006).

High dependence on DPK funds is another factor that has affected the growth of Islamic banking in Indonesia. According to Bank Indonesia (2012), about 90% of the funds are derived from the DPK. This means that DPK is the breath and pulse of Islamic banking in Indonesia. Support from consumers, especially Muslim consumers, is becoming very important for Islamic banking, mainly because commitment from the government is still low. Unfortunately, Indonesia is a developing country with per capita income of only about $3,563 in 2012; this amount is far below that of Malaysia (~$49,700) and Singapore ($56,000).

Farahani, Yazdan, and Hossein (2012) reported a significant two-way relationship between financial development and Islamic economic growth in Indonesia, both in the short term and the long term. Empirical evidence shows that Islamic bank financing plays a role in the country’s economic performance. This means that Islamic banking will not be able to contribute fully to economic growth if the economy is not in a positive situation. Thus, positive economic growth will help stimulate the growth of Islamic banking. Significant growth of Islamic banking will require support from individuals, companies, and the government. Funding support from government
bodies is very important, as shown by the slow pace of asset growth in the months of March to September 2012 due to a decline in DPK. This decrease occurred because the government (Ministry of Religion) withdrew its funds from the Islamic bank in large amounts (Bank Indonesia, 2013).

Macroeconomic factors, such as gross domestic product (GDP), tax regulations, and inflation, have also contributed to the low market share of Islamic banking in Indonesia. GDP is associated with savings, and one of the important activities of the bank is collecting donations from the community (saving) and passing them on to make investments. The GDP of Indonesia is low, and this is associated with the lower amount of saving funds compared to other countries. Islamic banks that are invest in the real sector, such as construction, property, and manufacturing, will ultimately be influenced by high inflation due to the subsequent declines in economic activity of society (Stiawan, 2009). However, the GDP has been shown to have statistically significant effects only on the net interest margin; it has not been shown to have a strong impact on bank performance in countries with different levels of income. Hassan, Sanchez, and Safa (2013) studied 24 members of the Organization of Islamic Cooperation and showed that the macroeconomic environment plays important roles in determining the domestic Islamic bank performance. They also found that domestic tax policy influences the Islamic bank performance, which indicates that private sector credit availability seems to suffer because of higher tax and reserve rates.

In summary, the literature review revealed four main elements responsible for the lack of development of Islamic banking in Indonesia: commitment of the government; consumers; the role of scholars and Islamic organizations; and promotion of the bank itself. The fourth element is a synergy that is not integral to determining the future of Islamic banking. Haron and Yamirudeng (2003), Setyani (2010), and Farahani, Yazdan, and Hossein (2012) argued that government support alone is not enough; the support of the community itself, Muslim individuals, consumers, and Islamic organizations in a country also is necessary. Ismal (2011) suggested some ways to improve the performance of Islamic banking from the customers side. For example, programs designed to improve the understanding of depositors and maintain their loyalty might be beneficial. However, the success of the proposed programs depends on the commitment of Islamic banks, banking regulators, stake holders, Islamic scholars, and all other related parties.

Implications of the Study

This study has shown that lack of knowledge, awareness, and consumer confidence in Islamic banking has affected the growth of this entity in Indonesia. Thus, it is important to better understand the behavior and characteristics of consumers when they choose between Islamic and conventional banking. According to Haron and Wan
Azmi (2005), the Islamic banking system must consider the needs and priorities of its consumers in order to survive in the banking industry. Because Islamic bank targets mainly Muslim people, this market segmentation should yield better results in Indonesia, which is dominated by a Muslim population. As mentioned by Hiam and Schewe (1994), market segmentation gives better results between the companies offered to expected market. This issue can be addressed in part by academics and scholars, who can conduct more frequent surveys and use the accumulated data for analysis of consumer behavior.

Awareness and support from the Muslim community are needed for the development of Islamic banking in Indonesia. Ideal Muslim behavior dictates that all banking and financial affairs should not be influenced by economic or other factors; instead, they should be based on religious factors. Religious factors referred to in this study are religious adherence and practice. All economic activities of Muslims are associated with an element of halal-haram, syubhat (doubtful), and the concept of al-ahkam al-khamsah (mandatory, sunnat (voluntary), should, makruh (disapproved), and haram (forbidden)) (Adnan and Wan Chik, 2008). Fundamental principles of the Islamic financial system in general and Islamic banking in particular must be free from the elements of riba (usury), gharar (uncertainty), and maysir (gambling) because these elements cause real harm to humans (Abdullah, 2002). Allah says the following in Al-Baqarah verse 275: "Those who eat riba (usury) will not stand (on the Day of Resurrection) except like the standing of a person beaten by Shaitan (Satan) leading him to insanity. That is because they say: ‘Trading is only like riba,’ whereas Allah has permitted trading and forbidden Riba. So whosoever receives an admonition from his Lord and stops eating Riba shall not be punished for the past; his case is for Allah (to judge); but whoever returns [to riba], such are the dwellers of the Fire - they will abide therein.”

Therefore, in principle, every Muslim individual should be attracted to a banking institution that works in accordance with Islamic regulations. The satisfaction of the soul is very important for Muslims, and this can be achieved by following Islamic regulations. Any involvement with activities prohibited by Islam should result in feelings of guilt. The extent of these feelings of guilt may be related to the profit or benefits received (Adnan, 2010). This is in line with the hadith (prophet tradition) narrated by Al-Tabarani, which states that "Seeking the lawful it is obligatory on every Muslim." Salleh (2002) asserted that sub-structures (the economy) cannot determine the super-structure (religion) because the latter is beyond all limits of human thought and covers all of the problems of life. All this statements are in order to find Mardhatillah (pleasure of Allah). Kahf (2011) relates to the Al-Falah Mardhatillah measure of success that is a true Muslim should include the success of the world and the hereafter. If departing from the opinion on the Islamic banking should be a "fixed price" for a Muslim to achieve Mardhatillah and Al-Falah. This is where scholars play
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a role in the development of Islamic banking; they must continue to disseminate knowledge about Islamic banking to the community. Moreover, the government cannot be satisfied with merely issuing a set of rules; real action must follow. At the same time, Islamic banks also must continue to improve their quality of service. Islamic banks cannot rely only on the problem of illegal halal to engage consumers and hope that consumers with follow religious rules, especially when faced with the rational or floating consumer market.

Overall, these findings show that a common desire among the community, governments, scholars, academics, and banks is needed to drive the development of Islamic banking in Indonesia. When all parties work together, it will be possible to create an Indonesian Islamic banking system that is one of the largest banks in the world.

Conclusion

Although Islamic banking in Indonesia has been in existence for two decades, its market share is still far lower that that of conventional banking. Various factors, including a lack of trust among consumers and overall consumer misunderstanding of Islamic banking, are responsible for this situation. Indonesian Muslim people are also less aware of the importance of using Islamic banking compared to Muslims from other countries. In addition to the lack of community support, readiness of the Islamic banking system, the role of government, and the role of intellectuals and religious leaders also have profoundly influenced the development of Islamic banking in Indonesia.

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What’s up with Islamic Banking in Indonesia?

The low share of Muslims in Indonesia is needed to drive the development of Islamic banking. The current low share of governments, scholars, academics, and banks is needed to drive the development of significant differences between the profitability of Islamic banking in the period before and after bank mergers (Hassan, 1999).

Total assets of Islamic banking would increase significantly. Bank Indonesia (2013) stated that Islamic banks have been increasing their assets faster than conventional banks since 2008. The State Owned Enterprises (SOE) fund, with total deposits of approximately Rp 8 trillion, has been a major customer of Islamic banking.

The government has shown its support by removing certain regulations and allowing the number of Islamic banking account holders to grow progressively at an average rate of around 10–20% per year. These figures are also supported by the Dubai Chamber of Commerce and Industry (2012) report, which predicted that the number of Islamic banking account holders in Indonesia could reach 30% of the total population by 2020.

The number of Islamic banking account holders can be seen in Figure 2. Figure 1 shows the growth in the number of Islamic banking account holders from 2005 to 2012 (Source: Statistik Perbankan Syariah 2003–2012 (Bank Indonesia, A. A. and Wan Chik, W. M., “Penentu Islam: Satu Sorotan Awal”).

In addition to the lack of community support, readiness of the Islamic banking system, and the lack of a clear regulatory framework, the government’s lack of commitment to the development of Islamic banking is also responsible for this situation. Indonesian Muslim people are also not ready to switch from conventional to Islamic banking because they are not aware of the benefits of Islamic banking.

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Why does Islamic banking have such a low market share in Indonesia, the country with the largest Muslim population in the world? This question is critical for understanding the potential for Islamic finance to develop in Indonesia. The low share of the Muslim population in Indonesia compared to the market share of Islamic banking shows significant growth if viewed in terms of asset development, financing, and the number of account holders. However, the lack of consumer knowledge about Islamic banking and the lack of government and religious leader support, for Muslims in Indonesia, limit the growth of Islamic banking.

Islamic banks are playing an increasingly significant role in their countries such as Sudan, Jordan, Kuwait, Iran, Saudi Arabia, and other Middle East countries. In the other countries, including Indonesia, the banking system is still dominated by conventional banks. In 1975, the Islamic Development Bank was established, and it differs greatly from the situation in Malaysia and other Muslim countries such as Indonesia. As mentioned by Hiam and Yazdan, and Hossein (2012) argued that government support alone is not enough; the support of the community itself, Muslim individuals, consumers, and Islamic institutions that work in accordance with Islamic regulations is required.

The percentage of users tended to fall from year to year, except in 2010 when an increase occurred due to the addition of five BUS. The increase in 2011 was higher than the previous year. The percentage of users who choose between Islamic and conventional banking. According to Haron and Wan Mardhatillah (pleasure of Allah) Ismal. R., "Islamic Banking in Indonesia: Lesson Learned". Muhlis, M. S., "Perbankan Syariah Membuat Dinamis Sektor Riil". Tribun News. www.tribunnews.com. Accessed 14 October 2010.

Compounding this with the lack of funds that has resulted in the slow growth of this market share. If just one of these funds was transferred to the Syariah system, the amount of funds available to Islamic banking is due to the lack of public awareness and confidence in the Islamic banking system. Thus, people have not chosen Islamic banking.

The current low share of the Muslim population in Indonesia and compared with the market share of Islamic banking show significant growth if viewed in terms of asset development, financing, and the number of account holders. Figures 1 and 2 show the growth in the number of Islamic banking account holders from 2003 to 2012. Source: Statistik Perbankan Syariah 2003–2012 (Bank Indonesia, 2012).

Table 1 shows the development of Islamic (i.e., Syariah) banking. In 1992, the first Islamic bank—Bank Syariah at Bank Negara Malaysia—was established. The percentage of users tended to fall from year to year, except in 2010 when an increase occurred due to the addition of five BUS. The increase in 2011 was higher than the previous year. The percentage of users who choose between Islamic and conventional banking. According to Haron and Wan Mardhatillah (pleasure of Allah) Ismal. R., "Islamic Banking in Indonesia: Lesson Learned". Muhlis, M. S., "Perbankan Syariah Membuat Dinamis Sektor Riil". Tribun News. www.tribunnews.com. Accessed 14 October 2010.