

Article

Implementation Of Sharia Governance In Islamic Banking Windows Of Regional Bank In Indonesia

Fajar Amtsal^{1*}, and Hartomi Maulana²

^{1*} Affiliation 1; University of Darussalam Gontor, Indonesia, fajaramtsal@unida.gontor.ac.id
(Correspondence)

² Affiliation 2; University of Darussalam Gontor, Indonesia, mhartomi@unida.gontor.ac.id

Citation: Fajar Amtsal (2019), Implementation Of Sharia Governance In Islamic Banking Windows Of Regional Bank In Indonesia. *Islamic Business and Management Journal*, 2(1) p 61-68*

Academic Editor: Muhammad Al Farizi

Received: 7 March 2019

Accepted: 18 June 2019

Published: 18 June 2019

Publisher's Note: IBMJ, Faculty of Economics and Management UNIDA Gontor stays neutral with regard to jurisdictional claims in published maps and institutional affiliations.



Copyright: © 2019 by the authors. Submitted for possible open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (<https://creativecommons.org/licenses/by/4.0/>).

Abstract: This study aims to analyze how the implementation of good corporate governance in regional bank of islamic banking windows in Indonesia based on Financial Service Authority, and the implementation of sharia governance in regional bank of islamic banking windows in Indonesia in according to the standard of sharia governance issued by IFSB. This study uses secondary data obtained from the annual report of good corporate governance of regional bank of islamic banking windows which has published in 2017. The method used in this study is qualitative with the type research using content analysis from the annual good corporate governance report of regional bank of islamic banking windows in Indonesia. The result of this study indicates that the implementation of good corporate governance at regional bank of islamic banking windows in general have done good corporate governance which is marked with the result of self-assessment of every regional bank of islamic banking windows which on average gets a good predicate. The result of research on the implementation of IFSB standard of sharia governance in general have applied some of the IFSB standards, but there is 1 (one) standard are not implemented by several banks and several standards are not applied to all banks. For futher research it is expected to re-analyze the implementation of sharia governane based on IFSB standardby using other analysis data teqnique to be able to examine the other result of analysis of sharia governance with the new prespective

Keywords: Islamic Banking; Regional Bank; Sharia Governance; IFSB.

1. Introduction

The growth and development of Islamic banking in Indonesia is increasing rapidly, this is evidenced by the increasing number of bank service networks and products from Islamic banks. This development should involve the improvement of good sharia banking governance, known as Sharia Governance (SG) (Penjelasan Atas Peraturan Bank Indonesia (PBI) No. 11/33/PBI/2009 Tentang Pelaksanaan Good Corporate Governance (GCG) Bagi Bank Umum Syariah (BUS) dan Unit Usaha Syariah (UUS) Pada Bagian Umum). Since shariah compliance is an indicator that contributes greatly to IFIs (Islamic Financial Institutions), the application of Sharia Governance to IFIs must be considered.

With the rapid growth and development of Islamic banking, in its operations and regulations, Islamic banking implements a fatwa fatwa compiled by standard of Dewan Sharia Nasional Majelis Ulama Indonesia (DSNMUI) (Faozan 2013). On the other hand, various international standards emerged which were specifically formed to realize islamic financial institutions that are truly fair, professional and in accordance with sharia principles and standards. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Service Board (IFSB) are both leading international organizations that set standards adopted as a reference for compliance with Islamic banks throughout the world.

Islamic Financial Services Board (IFSB), which is based in Kuala Lumpur, was officially inaugurated on 3rd November 2002 and started operations on 10th March 2003. It serves as an international standard-setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry, which is defined broadly to include banking, capital market and insurance. In advancing this mission, the IFSB promotes the development of a prudent and

transparent Islamic financial services industry through introducing new, or adapting existing international standards consistent with Sharia principles, and recommend them for adoption (IFSB, "Background of IFSB", About IFSB, <https://www.ifsb.org/background.php> 2019).

Based on IFSB data in 2018, the number of Islamic banks is 189 units with 82 Sharia Business Units. The number of branches in Islamic banks is 29,766 units with total assets of USD 1,652 billion and total Shari`-compliance financing totaling USD 1,013 billion. This information is obtained from aggregate data for total assets (21 countries), total financing in accordance with the sharia (19 countries), and total funding/liabilities (19 countries) calculated from available national structural data from Islamic banks and islamic banking windows from a conventional bank. (IFSB, "Selected Aggregated Indicators", Prudential and Struktural Islamic Financial Indicator, https://www.ifsb.org/psifi_05.php 2019).

In Indonesia, until June 2018 number of public companies of the Islamic bank is 13 units with number of islamic banking windows, is 21 unit. The financing of the legitimate people amounted to 168 housing units with total assets up to 444,43 billion rupiah (Otoritas Jasa Keuangan, 'Snapshot Perbankan Syariah Indonesia', 2017, 1–8). The research carried out by Firmansyah concluded that GCG (corporate governance) in the general bank of Sharia has gone well but not fully implemented the AAOIFI standard (Ali 2018). Therefore, the implementation of sharia governance in islamic banking windows is important given the total assets of Islamic Banking windows in June 2018 up to 138,88 trillion rupiah with funding routing up 105,34 Trillion rupiah.

The author examines corporate governance practices in islamic banking windows in Indonesia by using annual report data published by each islamic banking windows in Indonesia.

Mardian states that each Islamic bank has a different model in the fulfillment of sharia principles (Mardian 2011). This research is important because due to the lack of research in Indonesia that examines the implementation of sharia governance based on IFSB standards. It also supports the practice of implementing sharia governance in islamic banking windows of regional bank in accordance with the principles on sharia.

2. Conceptual Foundation

2.1. Islamic Bank

Islamic banks are part of the existing islamic banking in Indonesia. Islamic banking is defined in Law No. 21 of 2008 Article 1 point 1 which states (Undang Undang Republik Indonesia Nomer 21 Tahun 2008 Tentang Perbankan Syariah Pasal 1 Ayat 1), "Islamic banking is all about Islamic banking and Islamic banking windows, which covers institutional and commercial activities, as well as the way and process in carrying out its business activities." (Satrio & Kurniawan 2018).

In addition, the definition of Islamic bank is specifically contained in Law No. 21 Article 1 point 7 which states (Ibid. Ayat 12), "Islamic Bank is a Bank that runs its business activities based on Sharia Principles and according to its kind consisting of Sharia Commercial Bank and Rural Islamic Bank." (Maulana & Umam 2018).

2.2. Types of Islamic Bank in term of its Function

Mardian The definition of Sharia Commercial Bank is contained in Law No. 21 of 2008 Article 1 point 8 which states (Undang Undang Republik Indonesia Nomer 21 Tahun 2008 Tentang Perbankan Syariah Pasal 1 Ayat 8), "Sharia Commercial Bank is a Islamic Bank which in its activities provides services in the payment traffic."

2.2.1. Islamic Business Unit

The definition of Islamic Business Unit is contained in Law No. 21 of 2008 Article 1 point 10 which states (Ibid. Ayat 10) "Islamic Business Unit, hereinafter referred to as UUS, is a work unit of the head office of a Conventional Commercial Bank functioning as the holding office

of an office or unit conducting business based on Sharia Principles, or a work unit in a branch office of a Bank domiciled in a foreign country to carry out conventional business activities that function as the head office of the Sharia sub-branch office and / or sharia unit."

2. 2. 2. Rural Islamic Bank

The definition of Rural Islamic Bank is contained in Law No. 21 of 2008 Article 1 point 9 which states (Ibid. Ayat 9), "*Rural Islamic Bank is a Islamic Bank which in its activities does not provide services in the payment traffic."*

2. 3. Sharia Governance

IFSB defines sharia governance system as a set of institutional and organizational arrangement through which an islamic financial institution ensures that there is effective independent oversight of Sharia compliance over each of the following structures and process (Kassim 2013) :

1. Issuance of relevant Sharia pronouncement or resolution. T
2. Dissemination of information on such Sharia pronouncement or resolutions to the operative personnel of the IFIs who monitor the day-to-day compliance with the Shariarésolutions vis-à-vis every level of operations and each transaction.
3. An internal Sharia compliance review or audit reports that if there is any incident of non-compliance, it should be recorded and addressed and rectified..
4. An annual Sharia compliance review or audit for verifying that internal Sharia compliance review or audit has been appropriately carried out and its findings have been duly noted by the Sharia boards.

2. 4. Sharia Governance Based on OJK standards

the implementation of sharia governance in islamic banking windows in Indonesia based on OJK standard in this research referring to Circular Leter of Bank Indonesia No. 12/13 / DPbS concerning Implementation of Good Corporate Governance for Sharia Commercial Banks and Islamic Banking Windows must always be based on five basic principles namely transparency, accountability, responsibility, independency and fairness

2. 5. Sharia Governance Based on IFSB

December 2010 the IFSB issued an IFSB-10 guideline containing the Guiding Principles on Islamic Information Systems for Institutions offering Sharia Financial Services, which consisted of (IFSB Islamic Financial Services Board.): General Approach to the Sharia Governance System, Competence, Independence, Confidentiality, Consistency.

3. Research Methods

This study aims to determine the extent to which the implementation of corporate governance standards issued by IFSB at islamic banking windows of regional bank in Indonesia on Good Corporate Governance Report issued every year. There are standards that become indicators in the implementation of corporate governance, therefore it takes a deep understanding to examine it. The approach used in this study is a qualitative approach. Research with a qualitative approach emphasizes the analysis of inductive thinking processes relating to the dynamics of relationships between observed phenomena, and constantly using scientific logic (Sugiyono 2015; Faradisi & Setyaningrum 2017).

Type of research used in this research is content analysis, which aim to find out the implementation of sharia governance in islamic banking windows in Indonesia in term of IFSB sharia governance standard throught the analysis of the annual Good Corporate Governanace report in islamic banking windows of regional bank in Indonesia. Using content analysis because the data to be researched requires descriptive explanation (Subiakto 2004). Content Analysis is a systematic technique for analyzing the content of open communication behavior of selected communicator. Content analysis can be used to

analyze newspaper, websites, advertisements, interview record, as well as company annual report (Subiakto 2004).

The type of data used in this study is secondary data. Secondary data is an indirect source of data to data collectors, such as through other or document board (Sugiono 2015). Secondary data used in this study were collected from the annual report of Good corporate governance in each islamic banking windows in 2017 which can be seen from the official website of each company.

Technique of collecting data from this research is by using documentation of study of good corporate governance report in 2017 taken from website of islamic banking windows of regional bank.

To present the data for easy understanding, the steps of data analysis used in this research is Interactive Model Analysis from Miles and Huberman. Data analysis in qualitative research is done at the time of data collection as proposed by Miles and Huberman in Sugiyono that activity in qualitative data analysis is done interactively and continuous progress until complete, so the data is saturated. Activities in analyzing qualitative data are : Data Reduction, Data Display, and Conclusion Drawing/Verification.

4. Result And Discussions

4. 1. Implementation of GCG Based On Financial Services Authority

This analysis aims to find out how the implementation of sharia governance in regional bank of islamic banking windows in Indonesia based on IFSB standards by using content analysis shows that islamic banking windows in Indonesia has not fully implementing all sharia governance indicators on the IFSB standard, The following are the results of the assessment by comparing the criteria/indicator on each factor which at least cover 5 (five) factor of applying the implementation for applying the implementation of sharia governance:

Table 4. 1. Implementation of GCG Based On Financial Services Authority

No	Bank Name	Bank Code	Predicate
1	Bank Sumatera Utara	SUT	Good
2	Bank Sumatera Selatan dan Bangka Belitung	SSBB	Good
3	Bank Sumatera Barat	SBR	Good
4	Bank Jambi	JMB	Pretty Good
5	Bank DKI Jakarta	DKI	Good
6	Bank Jawa Tengah	JTG	Good
7	Bank Jawa Timur	JTM	Pretty Good
8	Bank Daerah Istimewa Yogyakarta	DIY	Good
9	Bank Kalimantan Timur	KTM	Pretty Good
10	Bank Kalimantan Barat	KBR	Good
11	Bank Kalimantan Selatan	KSL	Good
12	Bank Nusa Tenggara Barat	NTB	Good
13	Bank Kepulauan Riau	KRU	Pretty Good
14	Bank Sulawesi Selatan dan Sulawesi Barat	SSB	Good
15	Bank Aceh	ACH	Pretty Go

4. 2. Implementation of Sharia Governance Based on IFSB

This analysis aims to find out how the implementation of sharia governance in regional bank of islamic banking windows in Indonesia based on IFSB standards by using

content analysis shows that islamic banking windows in Indonesia has not fully implementing all sharia governance indicators on the IFSB standard, The following are the results of the assessment by comparing the criteria/indicator on each factor which at least cover 5 (five) factor of applying the implementation for applying the implementation of sharia governance:

Table 4.8 The Predicate Value of Assessment Result Based on IFSB standard on The Implementation of Sharia Governance in Regional Bank of Islamic Banking Windows in Indonesian

No.	Bank Name	GSG	CTP	IPP	CFP	CSP
1	Bank Sumatera Utara	1.80	1.00	1.5	2.00	2.00
2	Bank Sumatera Selatan dan Bangka Belitung	2.00	1.00	1.5	2.00	2.00
3	Bank Sumatera Barat	1.80	1.00	1.5	2.00	2.00
4	Bank Jambi	2.00	1.00	1.5	2.00	2.00
5	Bank DKI Jakarta	2.00	1.00	1.5	2.00	2.00
6	Bank Jawa Tengah	2.00	1.00	1.5	2.00	2.00
7	Bank Jawa Timur	1.80	1.00	1.5	2.00	2.00
8	Bank Daerah Istimewa Yogyakarta	2.00	1.00	1.5	2.00	2.00
9	Bank Kalimantan Timur	2.00	1.00	1.5	2.00	2.00
10	Bank Kalimantan Barat	1.80	1.00	1.5	2.00	2.00
11	Bank Kalimantan Selatan	1.80	1.00	1.5	2.00	2.00
12	Bank Nusa Tenggara Barat	1.80	1.00	1.5	2.00	2.00
13	Bank Kepulauan Riau	2.00	1.00	1.5	2.00	2.00
14	Bank Sulawesi Selatan dan Sulawesi Barat	2.00	1.00	1.5	2.00	2.00
15	Bank Aceh	2.00	1.00	1.5	2.00	2.00

From the results of an assessment conducted on the IFSB standard indicators, the ranking of factors per assessment is obtained as follows:

Table 4.9 Composite Value (CV) Calculation Model of Regional Bank of Islamic Banking Windows in Indonesia based on IFSB Standards

No.	Indicator	Weight (b)	Value (a) X (b)	Rank (a)
1	General Approach to the Sharia Governance System (GSG)	35.00%	0,35	1
2	Competence Principle (CTP)	20.00%	0,20	1
3	Independence Principle (IPP)	25.00%	0,25	1
4	Confidentiality Principle (CFP)	10.00%	0,10	1
5	Consistency Principle (CSP)	10.00%	0,10	1
	Composite Value (CV)	100.00%	1,00	5

In the assessment of the regional bank of Islamic banking windows in Indonesia based on IFSB standards following the composite value rating system set by Bank Indonesia (BI), namely:

Table 4.10 Composite Value (CV)

Composite Value (CV)	Rank
CV <1.5	Very Good
1.5 < CV <2.5	Good
2.5 < CV <3.5	Pretty Good
3.5 < CV <4.5	Unwell
4.5 < CV <5	Unhealthy

Based on the results of an assessment of the regional bank of Islamic banking in Indonesia based on IFSB standards, the ranking of the regional bank of Islamic banking windows is obtained. Windows of implementation of standards issued by IFSB, namely:

Table 4.11 The Predicate Value of Assessment Result on The Implementation of GCG in Islamic Bank Based on IFSB Standard

No	Bank Name	CV	Rank
1	Bank Sumatera Utara	1.63	Good
2	Bank Sumatera Selatan dan Bangka Belitung	1.68	Good
3	Bank Sumatera Barat	1.63	Good
4	Bank Jambi	1.63	Good
5	Bank DKI Jakarta	1.63	Good
6	Bank Jawa Tengah	1.63	Good
7	Bank Jawa Timur	1.63	Good
8	Bank Daerah Istimewa Yogyakarta	1.63	Good
9	Bank Kalimantan Timur	1.63	Good
10	Bank Kalimantan Barat	1.63	Good
11	Bank Kalimantan Selatan	1.63	Good
12	Bank Nusa Tenggara Barat	1.63	Good
13	Bank Kepulauan Riau	1.63	Good
14	Bank Sulawesi Selatan dan Sulawesi Barat	1.63	Good
15	Bank Aceh	1.63	Good

Based on the table above it can be concluded that the regional bank of islamic banking windows in Indonesia Indonesia has an average value that is almost the same, namely

1.6 with a good rating, this explains that the implementation of Sharia governance based on IFSB standards is not too different in each bank.

In implementing sharia governance in the regional bank of Islamic banking windows there are several indicators that are owned by several banks and not owned by other banks and there are several indicators that all banks do not apply namely.

5. Conclusions

Based on research it can be concluded that:

1. The implementation of sharia governance in Islamic banking windows in Indonesia based on OJK standard has been running well but still need some improvement. This is because in the results of GCG self-assessment scores from 15 regional banks, 5 banks get the third rank with the Pretty Good predicate and 10 banks get the second rank with the good rank and no bank reaches the first rank with Very Good rank, so that it can be concluded that regional bank of Islamic banking windows is still in the implementation of GCG can still be improved (Astuti 2015).

In addition, the implementation of sharia governance in islamic banking windows in Indonesia has been supported by regulations, this is supported by Syukron's research which explains that the support is in the form of the basic principles of GCG in Article 34 of Law No. 21 of 2008 concerning Islamic banking, and Bank Indonesia Regulation No. 11/33 / PBI / 2009 concerning GCG Implementation for Sharia Commercial Banks and Sharia Business Units (Syukron 2013).

2. The implementation of sharia governance in Islamic banking windows in Indonesia based on IFSB standard has not fully implemented the sharia governance issued by IFSB. Some standards are not implemented by several banks, Regulation of Bank Indonesia stated that Sharia Supervisory Boards consist of at least 2 people, this is not in line with the IFSB standard that minimum members Sharia Supervisory Board is 3 people. and some standards are not applied to all banks such as ISRU and ISCU ownership which are not applied to all sharia business units. This is supported by Ali Firmansyah's research stating that even for Islamic commercial banks, only Bank Muamalat has ISCU.

6. Suggestion

6. 1. Theoretical Suggestion.

For all regional bank of Islamic banking windows in order to continue and optimize the implementation of sharia governance, especially on standards that have not been implemented, as long as sharia compliance is an important indicator for sharia banking, the increase in sharia governance in sharia banking must be considered. This is supported by Maradita's research which concluded that sharia compliance is a differentiator between GCG in Islamic banks and conventional banks (Rachman 2017; Affandi 2014).

For regulator highly recommended to have a sharia governance framework such as Bank Negara Malaysia (BNM) which has the duty to ensure that the entire Islamic financial system operates in accordance with the Sharia principle. This is supported with Syukron which states that the current law in Indonesia does not explain the meaning of shariah principles on the basis of GCG one by one (Syukron 2013).

6. 2. Practical Suggestion

For futher research it is expected to re-analyze the implementation of sharia governane based on IFSB standardby using other analysis data teqnique to be able to examine the other result of analysis of sharia governance with the new prespective

References

- Affandi, M. T. (2014). Risk Management and Capital Adequacy of Islamic Bank; Should IFSB Standard be Based on Basel? *Risk Management and Capital*. SSRN. <https://doi.org/10.2139/ssrn.3637696>
- Astuti, R. Y. (2015). Analisa Kinerja Dewan Pengawas Syariah di Bank Syariah *Al Tijarah*, 1(2), 194–210. <https://doi.org/10.21111/tijarah.v1i2.955>
- Faozan, A. (2013). 'Implementasi Good Corporate Governance Dan Peran Dewan Pengawas Syariah Di Bank Syariah', *La Riba*, VII.1, 1–14.
- Faradisi, R. J., & Setyaningrum, D. (2017). The Effect of Corporate Governance on Sharia Corporate Performance in Indonesia. Atlantis Press. *Proceedings of the 6th International Accounting Conference (IAC 2017)*. <https://doi.org/10.2991/iac-17.2018.49>
- Firmansyah, A. (2018). The Implementation of Corporate Governance In Islamic Banking in Indonesia Based on AAOIFI Standart. Skripsi. Universitas Darussalam Ponorogo IFSB Islamic Financial Services Board-10.
- Kassim, S, A, S, N. & NuHtay, S, N. (2013). 'Comparative Analysis on AAOIFI, IFSB and BNM Shari'Ah Governance Faculty of Accountancy', *International Journal of Business and Social Science*, 4.15, 220–27.
- Maulana , H., & Umam, K. (2018). ISLAMIC MICROFINANCE AND MAQASID SHARIAH: AN OEVERVIEW OF SELECTED EXPERTS. *UNIDA Gontor Repository*. Retrieved from <http://repo.unida.gontor.ac.id/1303>
- Otoritas Jasa Keuangan. (2017). 'Snapshot Perbankan Syariah Indonesia', 1–8 <<http://www.ojk.go.id/id/kanal/syariah/berita-dan-kegiatan/publikasi/Pages/Snapshot-Perbankan-Syariah-Indonesia-Posisi-30-September-2017.aspx>>. (diakses pada 26 januari 2019)
- Penjelasan Atas Peraturan Bank Indonesia (PBI) No. 11/33/PBI/2009 Tentang Pelaksanaan Good Corporate Governance (GCG) Bagi Bank Umum Syariah (BUS) dan Unit Usaha Syariah (UUS) Pada Bagian Umum.
- Rachman, D. (2017) Universitas Airlangga. Fakultas Hukum., 'Yuridika: Majalah Fakultas Hukum Universitas Airlangga.', *Yuridika*, 32.3, 379–92 <https://e-journal.unair.ac.id/YDK/article/view/4790/pdf_1>.
- Satrio, R. P., & Kurniawan, D. A. (2018). THE EFFECT OF SHARIAH PRODUCTS AND PERCEPTION OF QUALITY OF SERVICES ON CUSTOMER SATISFACTION IN SHARIA BANKS PONOROGO. *Islamic Business and Management Journal*, 1(2), 35–46. Retrieved from <https://ejournal.unida.gontor.ac.id/index.php/IBMJ/article/view/2847>
- Sepky, M. (2011) Study Eksplorasi Pengungkapan Penerapan Prinsip Syariah di Bank syariah. SEBI Islamic Economics \$ Finance Journal Vol. 04, No 1.
- Subiakto, H. (2004). Analisis Isi Media Metode dan Pemanfaatannya. Dalam B. Bungin (Penyut.), *Metodologi Penelitian Kualitatif* (3 ed., hal 133-143). Jakarta : PT. Raja Grafindo Persada
- Sugiono (2015). "Metode Penelitian Manajemen". Penerbit Alfabeta Bandung hal 376
- Sugiyono. (2015). *Metode Penelitian Kuantitatif Kualitatif R&B*. Bandung: Aflabeta.
- Syukron, A. (2013). 'Economic: Jurnal Ekonomi Dan Hukum Islam, Vol. 3, No. 1, 3.1, 60–83.
- Undang Undang Republik Indonesia Nomer 21 Tahun 2008 Tentang Perbankan Syariah