

The Role of DSN-MUI Fatwa in Indonesian Sharia Banking Development Flows in the Industrial Revolution 4.0

Ipuk Widayanti^{1*}, Silvia Waning Hiyun Puspita Sari²

¹Faculty of Economics and Business, Universitas Gadjah Mada

²Faculty of Economics and Business, Alma Ata University, Indonesia

*corresponding author e-mail: ipuk.widayanti@mail.ugm.ac.id

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Abstract

The development of Islamic banking in recent years has experienced a very significant increase. This happens because it uses the principles of Sharia (Islamic law) and gets support from the government to accelerate Sharia banking activities. One form of support to improve the development of Islamic banking is the issuance of Law No. 21 of 2008 concerning Islamic Banking. An important authority in the dynamics of Sharia banking regulation is the National Sharia Council-Indonesian Ulema Council (DSN-MUI). This institution is an authoritative source in overseeing the obedience of Sharia banking industry players to comply with Sharia rules. The purpose of this study is to analyze the fatwa issued by the DSN-MUI on the development of Islamic financial institutions (LKS) in Indonesia, especially the Islamic banking sector. This study uses a qualitative method with a literature study approach. **Findings:** the results of this study conclude that the position of the DSN-MUI fatwa does not yet have a significant role in the development of Islamic bank products and services. This is because the fatwa acts only as a complement to Islamic bank products and services. In addition, the fatwa is a legal requirement for the Islamic banking sector in the context of Sharia compliance. The DSN-MUI fatwa is issued after the products and services have been published, not with a discussion mechanism first.

1. Introduction

In the last decade, the attention of Indonesian Muslims to the teachings of Islamic economics began to grow and develop. This is because, in addition to the conventional economic system that does not meet expectations, the people's awareness of Sharia is kaffah (comprehensive) in various aspects of life, and it also continues to increase (Hermanto, 2018). Talking about Islamic banking, the topic of study cannot be separated from the existence of the Indonesian Ulema Council (MUI) institution or a sub-sector of the MUI institution that specifically handles the field of Islamic economics, namely the National Sharia Council-Indonesian Ulema Council (DSN-MUI) (Imaniyati & Adam, 2017). The role of MUI and DSN-MUI in Sharia banking activities has been legitimized in the provisions of national legislation, which is reflected in the provisions of Article 1 paragraph (12) UUPS 21 of 2008: "Sharia principles are Islamic legal principles in banking activities based on fatwas issued by institutions who have the authority to determine fatwas in the field of Sharia. Then explicitly, the MUI institution is mentioned in the provisions of Article 26

paragraph (2) UUPS 21 of 2008 "Sharia principles as referred to in paragraph one are fatwaed by the Indonesian Ulema Council", and Article 32 paragraph (2): "Sharia Supervisory Board as referred to in paragraph (1) appointed by the General Meeting of Shareholders on the recommendation of the Indonesian Ulema Council".

Indonesia is a country where the majority of the population is Muslim, thus creating potential for the development of sharia banks. Several projections suggest that Sharia banking in Indonesia will increase in line with the increasing rate of institutional expansion and the very high acceleration of Sharia banking asset growth. The development of sharia banks in Indonesia has become a benchmark for the implementation of sharia economics and its existence in Indonesia. Bank Muamalat as a pioneer of Sharia commercial banks has already implemented Sharia principles amidst the development of conventional banks. In responding to the significant development of Islamic banking in Indonesia, it is necessary to have a set of laws and regulations that can provide legal certainty, besides that, fatwas from institutions that have competence are also needed, considering the very strategic role of fatwas in filling formal legal voids in the law relating to Islamic banking. The development of sharia banking in Indonesia is a manifestation of public demand which requires an alternative banking system that, apart from providing sound banking/financial services, also meets sharia principles (Khairunisa et al., 2018). However, it must be understood by all parties, especially those who are in the legal field, that MUI and DSN-MUI are private institutions that do not have full authority in determining state policies on the development of Islamic banking. The development of Islamic financial institutions in Indonesia based on the 2019 Global Islamic Finance Report published in London has compiled the Islamic Finance Country Index. According to this index, Indonesia is ranked first in non-Islamic countries and fourth out of all countries in the development of Islamic finance. The top six countries are Iran, Malaysia, Saudi Arabia, Indonesia, Bahrain, and the UK. This position places the two countries, Indonesia and Malaysia, in a strategic position for the world's Islamic financial institutions (Ibrahim & Salam, 2021).

Since the issuance of Law (UU) No. 21 of 2008 concerning Islamic Banking as a formal legal basis that specifically regulates various matters regarding Islamic banking in Indonesia, the industry's growth speed is expected to accelerate. This can be seen from the financing disbursement indicator which achieved an average growth of 36.7% per year and the fundraising indicator with an average growth of 33.5% per year from 2017 to 2020. These impressive growth figures are not only stopped on paper as the financial sector money circulation. IB Syariah Banking has proven itself to be a banking system that encourages the real sector, as indicated by the ratio of financing to fundraising Financing to Deposit ratio (FDR) which has averaged 90% in the last two years (Widarjono et al., 2020). The data shows that the most DSN-MUI fatwas were issued in 2018 and 2020 with 18 fatwas respectively. In 2021, it can be seen that only 1 fatwa has been issued related to Islamic finance, while the other 15 years have experienced variations in issuing fatwas, from 2 to 10 fatwas only. On average, within 18 years of DSN-MUI fatwas issued as many as 6.8 fatwas per year. In more detail, the fatwas issued by the DSN-MUI in 2018 all support Islamic banking operations. The fatwa in 2018 responded to Law Number 10 of 1998 and changes to Law Number 7 of 1992. The fatwa institution in Indonesia is the Indonesian Ulema Council (MUI). To support the development of Islamic financial institutions in Indonesia, the National Sharia Council (DSN) was formed in 1998 which has the task of providing solutions/answering all cases that require a fatwa in the field of Islamic finance in Indonesia. Thus, the DSN hierarchical structure under MUI and MUI is an independent institution that is not affiliated with the government. Since its establishment in 2017 DSN-MUI in Indonesia, the National Sharia Council has issued 116 fatwas relating to the operations of the bank and non-bank Sharia financial institutions.

As a country with the largest Muslim population, Indonesia should be a pioneer and mecca for the development of sharia finance in the world. This is not an 'impossible dream' because Indonesia's

potential to become a global Sharia financial player is very large, including (i) the large Muslim population is a potential customer for the Sharia financial industry; (ii) bright economic prospects, reflected in relatively high economic growth (range 6.0%-6.5%) supported by solid economic fundamentals; (iii) increasing Indonesia's sovereign credit rating to investment grade which will increase investors' interest in investing in the domestic financial sector, including the sharia financial industry; and (iv) has abundant natural resources that can be used as underlying sharia financial industry transactions. 20 Apart from that, another advantage of the Sharia financial development structure in Indonesia is the regulatory regime which is considered better compared to other countries. In Indonesia, the authority to issue Sharia financial fatwas is centralized by the National Sharia Council (DSN) – Indonesian Ulema Council (MUI) which is an independent institution. Meanwhile, in other countries, fatwas can be issued by individual clerics so the opportunity for differences to occur is very large. Another potential is from a regulatory perspective, especially after the birth of Law No. 21 of 2008 concerning Sharia Banking. With this ratification, it is hoped that the Sharia banking industry in Indonesia can develop more rapidly and provide greater benefits. Legal certainty and security guarantees will also be more real for investors and Sharia banking business actors. 21 Of course, this is a huge opportunity for the development of Sharia banks in Indonesia.

As a religious organization, MUI has goals and roles that lead to religion. MUI has a goal to participate in realizing a just prosperous safe and peaceful society. This is stated in the MUI Basic Guidelines which were ratified at the first national meeting, namely Article 2 of the MUI Basic Guidelines. Meanwhile, the role of the MUI, as stated in article 4, is to issue fatwas and advice to the government and Muslims in matters relating to religious issues and the benefit of the nation, to maintain the unity of the people, to represent institutions for Muslims and to act as intermediaries to harmonize relations between religious communities. To carry out its duties, MUI has formed a commission related to the task of reviewing legal problems that arise in the community, this is submitted to the fatwa commission. In this case, the fatwa is an alternative that is needed to provide answers to the problems of life from a religious perspective, both for the community and the government. In economic activities, in 1998, MUI formed an institution that specifically handles fatwas on *fiqh muamalah* (sharia economics, this institution is called DSN-MUI (Renie, 2021).

The elaboration of the authority of the DSN-MUI is manifested in two ways, first, the authority for formulating Sharia principles. The MUI is the sole authority mentioned in the law, with the function of making fatwas on Sharia principles. Because the MUI fatwa is not part of the legal source in the order of binding laws and regulations, to have operational strength, the fatwa is set out in a legal forum in the form of a Bank Indonesia Regulation (PBI). The process of transitioning from an MUI fatwa to a PBI was managed by the Sharia Banking Committee (KPS), an internal BI committee. The second is the monitoring stage. The Sharia compliance monitoring mechanism is realized in the form of providing an internal control division in the form of DPS in each Sharia bank. The role of MUI is to provide recommendations for candidates for DPS members before being determined by the General Meeting of Shareholders (GMS). This DPS represents the Sharia compliance authority of the MUI to be applied to each Sharia bank. DPS is an extension of MUI to monitor the implementation of the MUI fatwa. In general, this model of compliance authority is a confirmation of the practice that had been running before Law 21/2008 was born. MUI has long played an important role in the journey of Islamic banking in Indonesia. Although not a public legal entity, not part of a state institution, MUI after the law was given the authority to issue provisions that give the impression of being binding on the public, just like a public legal entity. Before the enactment of Law Number 21 of 2008, the MUI fatwa in the formulation of regulations was not binding (Jalil & Yani, 2021).

Efforts to develop Sharia banking in Indonesia are not only a consequence of Law No. 10/1998 and Law No. 23/1999 but are also part of efforts to revitalize the banking system which aims to

increase the resilience of the national economy. The economic crisis that occurred in mid-1997 proved that banks operating with Sharia principles could survive amidst exchange rate volatility and high-interest rates. This fact is supported by the operational characteristics of Sharia banks which prohibit interest (*riba*), transactions that are not transparent (*gharar*), and speculative (*may*).⁷ With this reality, the development of sharia banking is expected to increase the resilience of the national banking system which in turn is also expected to increase national economic resilience in the future. Such national economic resilience can create a resilient economy, namely an economy whose financial sector growth is in line with the growth of the real sector. In this effort to develop Sharia banking, Bank Indonesia as the national banking authority began to move forward by introducing the first Sharia monetary instruments, namely the BI Wadiah Certificate (SWBI) in 1999 and the Inter-bank Money Market based on Sharia principles (PUAS) in 2000. Most of the DSN-MUI fatwas were later adopted by Bank Indonesia (BI) or the Ministry of Finance of the Republic of Indonesia, especially the Directorate General of Financial Institutions, the Directorate General of Debt Management, and the Capital Market and Financial Institution Supervisory Agency (Bapepam LK) into binding legislation. Some of them are even adopted by the State as part of the Act. In a wider series, the DSN-MUI fatwa colored two laws related to the Sharia economy, namely Law No. 19 of 2008 concerning State Sharia Securities (SBSN) and Law No. 21 of 2008 concerning Islamic Banking. In Law no. 19 of 2008 concerning SBSN, the importance of the role of the DSN-MUI fatwa is regulated in Article 25 which states that in the context of issuing SBSN, the Minister of Finance requests a fatwa or statement of conformity of SBSN to Sharia principles from institutions that have the authority to issue fatwas in the field of Sharia (Rahmasari & Febriandika, 2019). The explanation of the article states that the institution that has the authority to issue fatwas in the field of Sharia is the MUI or other institutions appointed by the government. Thus, the fatwa in question is the DSN-MUI fatwa, because only DSN-MUI issues a fatwa in the economic field.

The Islamic finance industry in Indonesia is experiencing quite good development. The development of the Sharia banking industry is influenced by various factors, namely internal factors such as Human Resources (HR), funding, and good corporate governance, as well as external factors such as economic growth and national and international Sharia institutional infrastructure. One of the Sharia institutional infrastructures at the national level that encourages the growth of Sharia banks is the Financial Services Authority (OJK). OJK continues to encourage and direct Sharia banks towards a Sharia banking industry that is healthy, and sustainable and contributes positively to supporting quality economic development. The fairly good development in the sharia financial industry has had a positive impact on the community's economy. The Islamic banking industry can make a major contribution to transforming the economy into productive, value-added, and inclusive economic activities. With its impressive development progress, which has achieved an average asset growth of more than 65% per year in the last five years, the role of the Sharia banking industry in supporting the national economy has become increasingly significant. This strategic role continues to be encouraged by several policies that have been established by the authorized institutions. It is proven that one of the OJK policy priorities in 2016 in the banking sector is increasing the contribution of Sharia banking to the national economy (Financial Services Authority 2015a). Important agendas for the development of Sharia banking in Indonesia continue to be carried out in synergy between industry players and the government through the National Sharia Finance Committee (KNKS), OJK, and cooperation with Sharia banks in Indonesia (Ghofur, 2015).

Islamic banking is faced with the problem of the limited reach of Islamic banks, namely 55% of districts or cities in Indonesia as well as problems with product innovation. Sharia banking product innovation has not been able to answer market needs and be highly competitive. Another

The problem in product innovation is that it has not gone through a product innovation process using information technology and telecommunications. Therefore, Sharia banking is required to

be able to implement appropriate strategic models to expand its reach in both domestic and foreign markets. Apart from that, it is also required to be able to apply innovation in raising funds at low costs with low levels of liquidity. Sharia banking products are not varied. Sharia banking products are less varied, and limited to savings, deposits, current accounts, murabahah financing, and syrah products. In terms of financing schemes and quantities, Sharia banking products are still very limited. Sharia banks can develop existing products in the codification of Sharia banking products that have been established. Product development following the codification will make it easier for sharia banking to develop new products, because banks can focus more on developing product instruments according to the established codification. This can also be done easily, because this development model does not require special permission from the OJK, it only requires reporting of realization to the OJK. If a Sharia bank wants to develop a product, but it is not yet in the codification, then the product development must obtain permission from the OJK. The development of sharia banking product innovation must be following international standards and refer to the formulation of sharia banking development strategies. This alignment is mainly applied in the design of the product instruments being developed. Apart from that, product development must also be adjusted to product quality, human resource reliability, and the reach of the Sharia banking office network (Rasyid, 2017).

2. Research Method

This research is qualitative research using a library research approach and supported by secondary data. The secondary data used in this study are data released by the National Sharia Council-Indonesian Ulema Council (DSN-MUI), the Financial Services Authority (OJK), Bank Indonesia (BI), and the laws related to the discussion.



Figure 1. Qualitative Research Flow Literature Study (*Literature Review*)

Source: Compiled by the author, 2023

The picture above describes the editorial in the scenario of a qualitative research type of literature study. This research is a type of qualitative research through literature study. The stages of research are carried out by collecting library sources, both primary and secondary. This study classifies the data based on the research formula. In the advanced stage, data processing and reference citations are carried out to be displayed as research findings, abstracted to obtain complete information, and then interpreted to produce conclusion knowledge. While at the

interpretation stage using analysis or approaches such as philosophical, theological, Sufism, interpretation, Sarah, and others (Peter, 2019).

3. Results and Discussions

History of Indonesian DSN-MUI Fatwa

The development of Sharia banking in Indonesia is inseparable from the development of Sharia banking in various countries. Initially, this Islamic banking model was implemented in Pakistan in the late 1950s, which did not charge interest to its borrowers. In India, Jamaat e Islami Hindi started an interest-free loan system in 1868. In Egypt, a simple Sharia Bank was initially established in 1963 in the city of Mit Ghamr, which was then developed in 1971 under the name Nasser Social Bank. Sharia banking in Indonesia is moving slowly, but moving steadily. But the journey is still not expected. For a long time struggling alone, Sharia banking only received the government's attention when the Sharia Banking Law began to be discussed in the DPR. In 2008 the Sharia Banking Law was born after long discussions between council members, practitioners, government, and stakeholders. However, even though parliament and the government have passed the Sharia Banking Law, it is considered that this industry is still not running as expected. In fact, as a country with the largest Muslim population, Indonesia should be the center for the development of sharia finance in the world. This is very possible considering the development of Sharia finance in Indonesia today which is more market-driven and bottom-up driven in meeting people's needs so that it relies more on the real sector which is also an advantage in itself. This is different from the development of Sharia finance in Iran, Malaysia, and Saudi Arabia, where the development of Sharia finance relies more on the financial sector, not the real sector, and the role of the government is very dominant (Hasan, 2011).

As a religious organization, MUI has goals and roles that lead to religion. MUI has a goal to participate in realizing a just prosperous safe and peaceful society. This is stated in the MUI Basic Guidelines which were ratified at the first national meeting, namely Article 2 of the MUI Basic Guidelines. Meanwhile, the role of the MUI, as stated in article 4, is to issue fatwas and advice to the government and Muslims in matters relating to religious issues and the benefit of the nation, to maintain the unity of the people, to represent institutions for Muslims and to act as intermediaries to harmonize relations between religious communities. To carry out its duties, MUI establishes commissions. Regarding the task of reviewing legal problems that arise in the community, this is left to the Fatwa Commission. Because fatwas are an alternative that is needed to provide answers to life problems from a religious perspective, both for the community and the government. In economic activities, in 1998, MUI established an institution that specifically handles fatwas on fiqh muamalah (Sharia economics). This institution is called the DSN-MUI.

After the enactment of Law Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 concerning Banking (Banking Law No. 10 of 1998), Islamic economic and financial activities and development are increasingly being implemented, even in the Banking Law no. 10 of 1998 has contained provisions regarding economic activities based on Sharia principles. This then affects the rapid growth of economic activity based on Sharia principles. Including those that encourage the establishment of several Islamic financial institutions (Amin, 2018). The rapid development of Islamic financial institutions requires regulations relating to the operational compatibility of Islamic financial institutions with Sharia principles. The problem arises because the regulatory institution that has the authority to regulate and supervise Islamic financial institutions, namely Bank Indonesia (BI) and the Ministry of Finance cannot exercise their authority in the field of Sharia. The two government institutions do not have the authority to formulate Sharia principles directly from religious texts in the form of regulations (regulations) that are appropriate for each Sharia financial institution. In addition, government institutions are not equipped with laws and regulations governing the authority in managing Sharia matters (Nafis, 2017).

Based on this, the idea emerged to form a DSN, which had been discussed long before, precisely on August 19-20, 1990 when workshops and meetings discussed bank interest and people's economic development, which finally recommended to the government to facilitate the establishment of banks based on Sharia principles. So, on October 14, 1997, an ulama workshop was held on Sharia Mutual Funds, and one of the recommendations was the establishment of the DSN-MUI. These recommendations were then followed up so that the DSN-MUI was formally drafted in 1998. DSN-MUI is an institution formed by the MUI which is structurally under the MUI and is tasked with handling issues related to the Islamic economy, whether directly related to Islamic financial institutions or others. In principle, the establishment of the DSN-MUI is intended as an effort for efficiency and coordination of the ulama in responding to issues related to economic and financial issues, The DSN-MUI is also expected to act as a supervisor, director, and driver of the application of the values of the principles of the teachings. Islam in economic life.

Regarding the development of Islamic financial institutions, the existence of the DSN-MUI and its legal products have received legitimacy from BI, which is the state institution that holds the authority in the banking sector, as stated in the Decree of the Board of Directors of Bank Indonesia Number 32/34/1999, where in article 31 it is stated: "To carry out its business activities, Islamic commercial banks are required to pay attention to the DSN-MUI fatwa", furthermore, the Decree also states: "Similarly, if a bank will carry out activities as referred to in Article 28 and Article 29 if it turns out that the business activities which is intended to have not been issued a fatwa by the DSN, it is obligatory to ask for DSN approval before carrying out such business activities. Bank Indonesia Regulation Number 11/2/PBI/2009 (PBI) further reaffirms the position of the Sharia Supervisory Board (DPS) that every commercial bank business that opens a Sharia business unit is required to appoint a DPS whose main task is to provide advice and suggestions to the board of directors and supervise Sharia compliance. In the provisions of UUPS No. 21 of 2008, it is expressly stated that the DPS is appointed in the general meeting of shareholders on the recommendation of the MUI. Based on this, it can be said that the DSN-MUI is the only institution that is mandated by law to stipulate a fatwa on Islamic economics and finance, it is also an institution established to provide Islamic legal provisions to Islamic financial institutions in carrying out their activities. These provisions are very important and become the main legal basis in the course of its operations. Without legal provisions, including Islamic law, Islamic financial institutions will find it difficult to carry out their activities (Rahmasari & Febriandika, 2019).

Development of Islamic Banking in Indonesia

The development of the Sharia banking system in Indonesia is carried out within the framework of a dual-banking system or dual banking system to provide increasingly complete alternative banking services to the Indonesian people. Together, the Sharia banking system and conventional banking synergistically support the wider mobilization of public funds to increase financing capacity for sectors of the national economy. The characteristics of the Sharia banking system which operates based on the principle of profit sharing provide an alternative banking system that is mutually beneficial to the community and banks, as well as highlighting aspects of fairness in transactions, ethical investment, prioritizing the values of togetherness and brotherhood in production, and avoiding speculative activities in financial transactions. In Indonesia, financial institutions can be in the form of banks or non-banks called bank financial institutions and non-bank financial institutions (Syafrida, 2015). The definition of banking is explained in Article 1 point 1 of Law number 7 of 1992. Sharia banking is described in Law number 10 of 1998 Article 1 and what is meant by Sharia principles is explained in Article 1 point 13. While in Law Number 21 of 2008 Article 1 provides a more specific explanation and understanding regarding Sharia banking. Sharia provisions in Law number 21 of 2008 concerning Sharia Banking, article 1 number

12. In principle, conventional financial institutions and Islamic financial institutions are the same, namely as intermediaries (intermediaries) for two parties, namely the party with excess funds (surplus funds) and the party with a shortage of funds (deficit funds). According to Acharya, (2016), Islamic banks are financial institutions that function to facilitate economic mechanisms in the real sector through business activities (investment, buying, and selling, or others) based on Sharia principles including the rules of agreements based on Islamic law between banks and other parties for depositing funds and or financing business activities, or other activities that are declared following Sharia values that are macro or micro (Handayani et al., 2023).

Thus, in addition to horizontal relationships, Islamic banking also pays attention to aspects of the vertical relationship between humans and their God. In addition, a significant change in Law Number 10 of 1998 and Law Number 21 of 2008 is that Sharia provisions as Sharia compliance in Sharia banking must be formulated stated issued by the Indonesian Ulema Council (MUI), known as the National Sharia Council fatwa (DSN). Before the establishment of BMI (the first profit-sharing-based Islamic bank) in Indonesia in 1992 and after the issuance of Law Number 10 of 1998 concerning Banking, it became an important period related to the existence of the current LKS, beginning with many discussions about ideas and ideas for implementing Islamic economic values. in financial institutions. The development of these ideas and ideas coincided with the establishment of the Indonesian Muslim Intellectuals Association (ICMI) which then initiated the formation of BMT under the auspices of the Salmanmosque, Bandung Institute of Technology (ITB). The choice of financial institutions is inseparable from the global development of the Islamic economy, which was initiated by the neo-revivalist movement in the Middle East region. This movement demands the establishment of a "bank for usury" because the position of conventional banks is considered a usurious institution (Wiroso, 2020).

In the short term, national Sharia banking is more directed at serving the domestic market, whose potential is still very large. In other words, national Sharia banking must be able to be a domestic player but have international standard service quality and performance. As a concrete step in efforts to develop Sharia banking in Indonesia, Bank Indonesia has formulated a Grand Strategy for Sharia Banking Market Development, a comprehensive strategy of market development which includes strategic aspects, namely: Establishing a vision for 2010 as the leading Sharia banking industry in ASEAN, establishing a new image of national sharia banking that is inclusive and universal, more accurate market mapping, developing more diverse products, improving services and strategies new communication that positions sharia banking as more than just a bank. Furthermore, various concrete programs have been and will be carried out as the implementation stage of the grand strategy for developing the sharia banking financial market, including the following: 50 First, implementing a new vision for the development of sharia banking in phase I in 2008 building an understanding of sharia banking as Beyond Banking, by achieving an asset target of IDR 50 trillion and industry growth of 40%, phase II in 2009 made Indonesian sharia banking the most attractive sharia banking in ASEAN, with an asset target of IDR 87 trillion and industrial growth of 75% (Novianati, 2016).

Phase III in 2010 made Indonesian sharia banking the leading sharia banking in ASEAN, with an asset target of Rp. 124 trillion and industry growth of 81%. Second, a new Sharia banking imaging program that includes aspects of positioning, differentiation, and branding. The new positioning of Sharia banks as banking that is mutually beneficial to both parties, differentiation aspects with competitive advantages with diverse products and schemes, transparency, financial competence, and ethics, information technology that is always up-to-date and user-friendly, and the presence of Sharia financial investment experts adequate. Meanwhile, the branding aspect is "a Sharia bank is more than just a bank or beyond banking". Third, a new, more accurate mapping program for the potential of the Sharia banking market which generally directs Sharia banking services as a universal service or bank for all levels of society and all segments. following the strategy of each Sharia bank. Fourth, a product development program aimed at a variety of product variations supported by the unique value offered (mutual benefit) support from a wide office

network, and the use of standard product names that are easy to understand. Fifth, the program improves service quality supported by competent human resources and provides information technology capable of meeting customer needs and satisfaction as well as being able to communicate Sharia banking products and services to customers correctly and clearly, while still complying with Sharia principles; Sixth, a broader and more efficient public outreach and education program through various direct and indirect means of communication (print, electronic, online/web-site media), which aims to provide an understanding of the benefits of sharia banking products and services that can be utilized by the public (Apriyanti, 2016).

Sharia Banking Products

Variations and innovations in Islamic bank products have become a necessity because the banking sector has an important role in the economy. Funding is a contract agreement made by customers who lack funds with Islamic banking with a variety of products provided. In both product models, Islamic banking in this case takes a fee for the services they provide. The *mudharabah* principle states that the owner of the capital receives a profit-sharing reward, while the *wadhiah* does not receive a reward from the Islamic banking party in the form of a bonus or with a banking policy with no prior agreement. The principle of which is as a deposit from one party to another, both individuals and legal entities that must be maintained and returned whenever the depositor wants it. Then *Baraba* is a deposit where the first party entrusts funds or objects to the second party as the recipient of the deposit with the consequence that the deposit can be taken back at any time, where the depositor can be charged a deposit fee. The principle of which is divided into two, namely *yad-Amanah* which is defined as the custodian not giving the authority to use the goods entrusted to the custodian. Next is *wahidah yad-Dromana*, namely the recipient of the safekeeping has the authority to use the deposited goods without any obligation to give compensation to the depositor and can still be taken at any time (Saleh, 2006).

The technical application of *wadhiah* in Islamic banking products is *wadhiah* demand deposits. According to Bank Indonesia Regulation Number, 8/29/PBI/2006 in Article 1 and Law Number 10 of 1998, Article 1 paragraph 6 is a rupiah demand deposit account whose funds can be withdrawn at any time by using a check/billet giro, other payment order means, or book-entry. This product is strengthened from the aspect of Sharia compliance with the issuance of the DSN-MUI fatwa Number: 1/DSN-MUI/IV/2000 concerning the Giro. In this position, the fatwa responds and reinforces aspects of Sharia compliance. This is because the demand deposit that was promulgated in 1998 came earlier than the fatwa issued in 2000. The fatwa in this position responds to the 1998 law. Another Islamic bank *Wadhiah* product is *Wadhiah* Savings. In Law number 21 of 2008, Article 1 number 23 states: that deposits are funds entrusted by customers to Sharia Banks/Sharia Business Units based on *wadhiah* contracts or other contracts that do not conflict with Sharia principles in the form of Current Accounts, Savings, or other equivalent forms. with that. According to the DSN-MUI fatwa of 2000 concerning *Wadhiah* Savings, it must be savings that can be taken at any time (on call) or based on an agreement and no compensation is required, except in the form of a gift (*Sathya/gift*), voluntary from the bank. Likewise in this position, the fatwa also acts as a reinforcement for existing products, this can be seen in the difference in the year of publication between the law and the fatwa, namely 1998, 2000, and 2008. Although later the definition of *wadhiah* savings was rewritten in the 2008 Law. about banking.

The second source of association that can be used by Islamic banks is to use the *mudharabah* principle. *Mudharabah* is a contract agreement between two parties, namely the owner of capital (*shohibul maal*) and manager (*mudharib*) with the principle of profit and loss sharing, the first party provides capital while the second party provides skills and energy. The results of the business activities carried out are divided according to the portion of the profit-sharing ratio that has been mutually agreed upon at the beginning. *Mudharabah* theoretically is divided into two types

mudharabah muthlaqah and *mudharabah muqoyyadah*. According to PSAK 59, *mudharabah muthlaqah* is included in the category of unrestricted investment, and PSAK Syariah is replaced and referred to as Temporary Syirkah Fund. From the fatwa aspect, these *musharabah* savings are also included in the fatwa on savings issued in 2000. From the explanation above, the technical application of *mudharabah muthlaqah* in Islamic banks is in the form of *mudharabah* savings, deposits, and other similar names with the same principle. This *mudharabah* deposit is also stated in the DSN-MUI fatwa regarding deposits. Some of the fatwas mentioned above show that the initial fatwas quickly responded to the existence of Law Number 10 of 1998 to provide Shariah compliance instruments for Sharia bank operations. Products issued by Islamic banks on the side of fundraising have been covered by Law Number 10 of 1998 and detailed in Law 21 of 2008 as the formal legal basis for the operation and launch of Sharia bank products (Sartono, 2017).

Activities carried out by companies in product innovation are part of Islamic banks' efforts to meet people's expectations and preferences for Islamic banking services and products. People tend to choose new products with speed and ease of transaction. Therefore, Sharia banks try to meet people's expectations by carrying out various innovations, so that public interest in Sharia bank products becomes greater. Product innovations carried out to meet market needs must be carried out based on market surveys according to segmentation, targets, and company position (Hudaya 2011). This is done to obtain valid information about product schemes that the public wants and needs. This should be done by Sharia banks, so that the innovations developed are always based on community needs, with the hope that community needs will be met. Another thing that can be done is to observe people's behavior. This activity requires reliable human resources and quite a long time. Product innovation activities can be carried out by developing and creating new products, developing old products, and developing models for old products. Apart from that, product innovation can be carried out through the use of contracts, both those that have been included in the codification and those that have not been included in the codification of Sharia banking products. Several contracts have entered into codification and are developments of existing contracts, namely Musyarakah Mutanaqishah (MMQ) which is a development of musyarakah contract-based products. The applications of this contract that are needed by the community are Home Ownership Credit (KPR) and Motor Vehicle Credit (KKB) products. By utilizing this contract, people can fulfill their home ownership needs while still complying with sharia regulations. Other contracts that can be developed are contemporary syrah and Ijarah Muntahiyah Bittamlik (IMBT), namely rental contracts which are accompanied by an option to transfer ownership of the rented object to the lessee after the end of the rental period. Products with this contract can fulfill people's needs for ownership of certain objects. Apart from that, other product schemes are currently being developed by Sharia banking, namely the fund distribution mechanism, with Rahn (pawning), and *ṣarf* or foreign currency exchange contracts. Other themes that can be developed in product innovation are sukuk hedging and liquidity management in Islamic finance (Kian, 2016).

In developing Sharia banking products, banks must utilize information technology as a means of conveying value to society through new products. Another thing that needs to be done is to increase the role of WGPS to increase cooperation in various types of Sharia banking product development activities. The product development carried out must be in line with the DSN-MUI fatwa. This fatwa can be used as a basis for every effort to create product variations. Fulfillment of compliance with sharia provisions must still be carried out, even though the products provided are very diverse and close to the community. This means that there should be no deviations at the practical level that occur in Sharia banking in every financing scheme provided to the public. This fulfillment should be carried out by the Sharia Supervisory Agency (DPS) as the supervisory body and the OJK as the regulator that issues policies as well as the supervisor of Sharia banking in Indonesia (Novitarani, 2018).

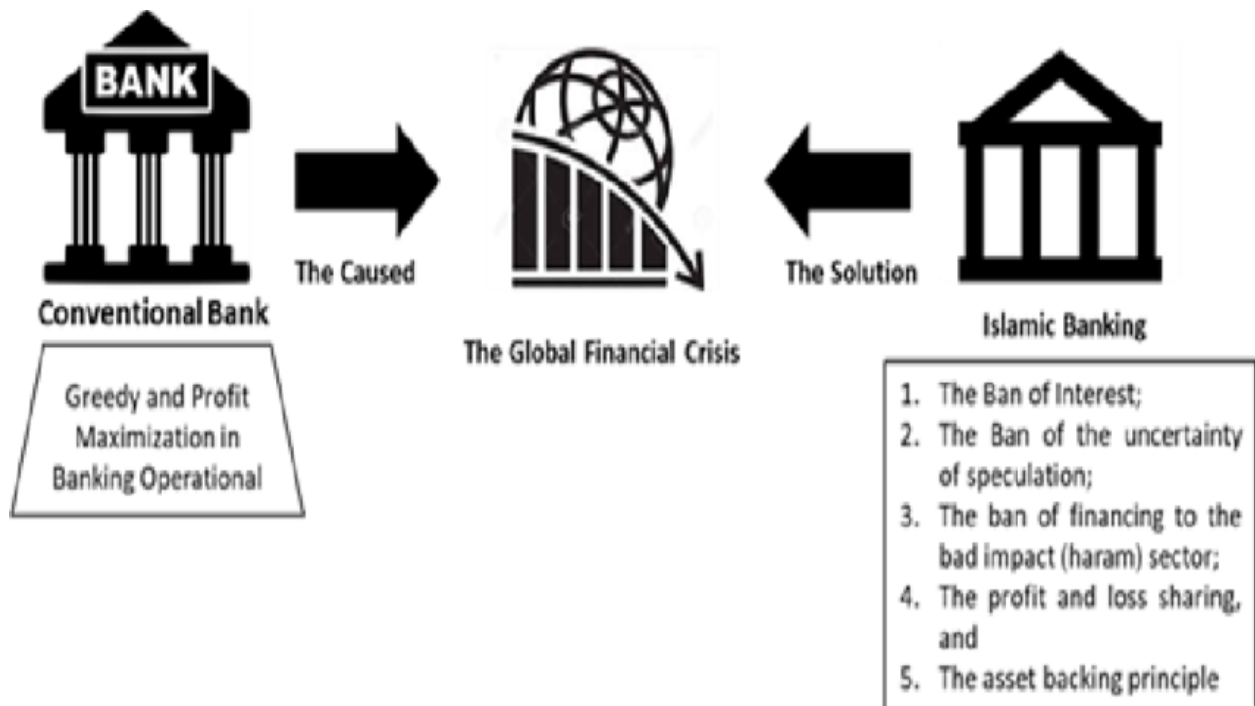


Figure 2. Sharia Banking Product Development Strategy

Financing and Services

Financing according to Law Number 10 of 1998 is the provision of money or claims with other parties that require the financed party to return the money or claims after a certain period with compensation or profit sharing. In general, the products and services offered by Islamic banks are divided into several patterns, namely contracts with deposit patterns, loans, profit-sharing, buying and selling, leasing, and others. In the Sharia bank financing scheme, the financing aspect uses the principle of a loan pattern, profit sharing, buying and selling, leasing, and several services utilized by Islamic banks. The implementation of these principles varies from one Islamic bank to another. Meanwhile, service products are usually included and coupled with contracts and financing products (multi-contract). *Murabahah* with a variety of products in various Islamic banks is currently the dominant product used due to Islamic banking minimizing risk. Financing with the principle of *murabahah*, various terms and conditions are stated in the DSN-MUI fatwa on *Murabahah*. Applications for *murabahah* products at Islamic banks can be in the form of purchasing goods, financing the purchase of motor vehicles, and houses, and can also be included in a multi-service scheme and can also be in the form of house renovations. The *Murabaha* products used by Islamic banks were initially listed in Law Number 10 of 1998 and then followed by the issuance of a fatwa on *murabahah* in 2000. However, some of the products applied by Islamic banks with the *Murabaha* scheme did not follow the substance of the contract. As an example,

Then the buying and selling schemes that can be used by Islamic banks are *salam* and parallel *salam* contracts. A *Salam* contract is the purchase of an item with an upfront/immediate payment and the goods are delivered later on terms and specifications that have been agreed in advance. While the parallel greeting is a greeting contract that is carried out simultaneously. Parallel greetings and greetings are also explained in the DSN-MUI fatwa in 2000 regarding *salam* contracts.³³ Furthermore, the buying and selling schemes used by Islamic banks are *Istishna* and Parallel *Istishna*. *Krishna* is a contract agreement between the seller and the buyer in the manufacture of an item with the specifications described at the beginning and both parties agree on the method of payment both upfront and at the end. The mechanism for Sharia compliance in

the Krishna buying and selling scheme is stated in the DSN-MUI fatwa no 4. The next scheme permitted by Islamic banks is the principle of *ujrah*, namely *ijarah*, *ijarah mutanahiyah bitamblik* (IMBT), and multi-service. *Ijarah* is a lease by both parties for a certain object provided by the first party and the second party pays a certain amount of money in exchange for transferring the benefits of the leased object. Meanwhile, in *ijarah mutanahiyah bi talk*, the difference is that at the end of the contract period, the second party is given the option to transfer ownership rights to the object of the lease with the terms mutually agreed at the beginning. The terms and conditions of this *ijarah* agreement are also stated in the DSN-MUI fatwa in 2000 (Isriani, 2018).

According to banking law no. 10 of 1998, financing is the provision of money or bills that can be equated with it, based on an agreement or agreement between the bank and another party being financed to return the money or bills after a certain period with compensation or profit sharing. In Sharia banking, the financing provided to fund users is based on Sharia principles. The rules used are following Islamic law. 6 The term financing essentially means I believe, I trust, I believe, I put my trust. The word financing which means (Trust) means that the financing institution as *Shahibul Mahal* places trust in someone to carry out the trust given. These funds must be used correctly, and fairly, and must be accompanied by clear and mutually beneficial ties and conditions for both parties. The types of financing products in Sharia banking are:

1. Sharia Working Capital Financing, namely financing provided by companies to finance their business's working capital needs based on Sharia principles in one business cycle
2. Sharia Investment Financing, namely investing funds to obtain benefits or profits in the future can be called medium or long-term financing for the purchase of capital goods needed in the business.
3. Sharia Consumptive Financing, namely financing provided for purposes outside the business and generally of an individual nature
4. Syndicated Financing, namely financing provided to more than one bank financial institution for one particular financing object. This financing is usually required for cooperative customers because the transaction value is very large
5. Take Over Financing, namely financing that arises as a result of taking over ongoing non-sharia transactions carried out by Sharia banks at the customer's request. 6. Letter of Credit Financing, namely financing provided to facilitate customer import and export transactions (Nurnasrina, 2018).

Islam formulated an economic system that is completely different from other systems. This is because Islamic economics has its roots in sharia which is a source and guide for every Muslim in carrying out his activities. Islam has sharia goals (*maqosid ash-shari'ah*) as well as operational instructions (strategies) to achieve these goals. Apart from referring to human interests in achieving prosperity and a better life, these goals themselves also have very important values for brotherhood and socio-economic justice, and require a balanced level of satisfaction between material and spiritual satisfaction. In Indonesian society, apart from the term debts and receivables, the term credit is also known in conventional banking and the term financing in Sharia banking. Debts are usually used by the public in the context of providing loans to other parties. In Law Number 10 of 1998, it is stated that financing based on Sharia principles is the provision of money or equivalent bills based on an agreement or agreement between the bank and another party which requires the party financed to return the money or bills after a certain period in return or profit sharing.¹⁶ Therefore, every Sharia institutional transaction must be based on a profit-sharing system, and trade or transactions are based on the exchange of money for goods. As a result, the principle of *mu'amalah* activities applies the principle of goods/services, money, and goods, so that it will encourage the production of goods/services, encourage the smooth flow of goods/services, and avoid misuse of credit, speculation, and inflation. The awareness that Islamic banking is a solution to economic problems to achieve social welfare has emerged, but real efforts that enable the practical implementation of this idea are almost drowned in the sea of a world economic system that cannot escape from interest. However, this idea continues to develop, albeit

slowly. Several trials continue to be carried out, ranging from simple projects to large-scale collaborations. From these efforts, Islamic banking initiators can think about creating an interest-free banking system infrastructure (Fitri, 2015).

The Role of the MUI-DSN Fatwa in the Flow of Sharia Banking Development

All fatwas issued by the DSN-MUI are absorbed in the form of a Bank Indonesia Regulation which will bind all Islamic banking and fiqh muamalah actors, although several fatwas have been adapted and combined into one Bank Indonesia Regulation. In the practice of implementing Sharia banking. Bank Indonesia has issued many regulations to guide the implementation of Sharia principles. Fatwas have properties according to the circumstances and situations of the place and follow contemporary understanding so that fatwas can change. If there is a change in the DSN-MUI fatwa on certain issues, this may result in changes to Bank Indonesia regulations. However, in practice, based on research data, there has been no change in Bank Indonesia Regulations due to changes in the fatwa from the DSN-MUI (Hafid, 2018). Sharia Principles in Money Collection and Distribution Activities as well as Sharia Bank Services. This change was made to conform to the fatwa decision issued by the DSN-MUI, in terms of the process of making the fatwa binding, namely the transformation of Islamic law into national law. The issuance of a fatwa that bank interest is usury *nasih* which is forbidden by the MUI on January 24, 2004, has become one of the driving forces for the implementation of Islamic banking in Indonesia. After the presence of the fatwa, it affected the conversion of some Muslim customers to Islamic banks. The existence of the DSN-MUI fatwa has increasingly shown its role as a guideline for the implementation of Sharia principles in banking since the enactment of Law No. 21 of 2008 concerning Islamic Banking. Law No.

As a law that specifically regulates Islamic banking, Law No. 21 of 2008 regulates the issue of Sharia compliance (Syariah compliance) whose authority lies with the Indonesian Ulema Council (MUI) which is represented through the Sharia Supervisory Board (DPS) which must be established in each Sharia Bank and Sharia Business Unit. To follow up on the implementation of the fatwa issued by the MUI into Bank Indonesia Regulations, internally Bank Indonesia formed a Sharia Banking Committee, whose membership consists of representatives from Bank Indonesia, the Ministry of Religion, and elements of society with a balanced composition. In the process of implementing or casting a fatwa in a Bank Indonesia Regulation, Bank Indonesia Regulation No. 10/32/PBI/2008 concerning the Sharia Banking Committee is tasked with elaborating the MUI fatwa related to Islamic banking, namely contributing to the absorption of fatwas in Bank Indonesia Regulations and implementing the development of the Sharia banking industry. The preparation of Bank Indonesia regulations begins with research, and then discussions with stakeholders between the Islamic banking industry and the MUI are held regarding the discussions on fatwas. The role of the DSN-MUI Fatwa as a guide to Sharia principles is not only at the level of being absorbed by Bank Indonesia regulations or Sharia internal compliance of Sharia banking institutions, but also in essence the DSN-MUI fatwa is absorbed by Law no 6 (Hardiani, 2018).

The role of the DSN-MUI fatwa is based on research data, in practice, most of the issued DSN-MUI fatwas have answered the needs of Islamic banking, although there are still some unanswered or unavailable DSN-MUI fatwas in supporting the development of new products and operational activities of Islamic banking. The role of the DSN-MUI Fatwa in encouraging the implementation of Sharia banking for Sharia commercial banks is indicated by the Sharia business unit which started its operations after MUI established the National Sharia Council. Before the 2018 period, the number of Sharia commercial banks was only three banks, 2019 the number of Sharia commercial banks increased to 11 (eleven) Sharia commercial banks, as well as Sharia BPRs, before the 2018 period the number of Sharia BPRs only amounted to 114 banks (Permadi, 2019).

The role of the MUI DSN fatwa is one of the prerequisites in determining products at Sharia Financial Institutions (LKS). When the product is proposed by the DPS, each Sharia financial institution receives a fatwa provision from the DSN MUI. This research was written to explain in essence the role of the DSN-MUI fatwa in business operations at Sharia Financial Institutions (LKS). The research in this writing is bibliographic and is explained descriptively. All Sharia financial institutions are required to comply with the DSN MUI fatwa. Because all business activities and operations at Sharia financial institutions have benefits and blessings for all parties who are and will carry them out, both for LKS which acts as authorities and has a variety of product offerings, and for customers as product users, the provisions of this fatwa can indirectly be one of the determining factors for its sustainability. In the Islamic legal system, fatwas play an important role. Fatwas are explanations and expositions of Islamic law that offer recipes and solutions to every problem. The description of this provision is taken directly from the text. Muslims are required to follow all commandments and refrain from what is prohibited in the teachings and directed by the texts. So, Muslims must follow the fatwa's instructions. Indirectly following and implementing the fatwa's directions, including by following and carrying out the directions in the text. This is also said to be by the principle of recognizing the supremacy of Islamic law (Nurjaman, 2021).

The provisions of Islamic law must be subject to and followed by anyone who claims to be a Muslim. Muslims often find it difficult to understand and practice Islamic laws which come from the Koran and Hadith. For example, understanding *mutasyabihat* verses or verse provisions that are so general that Islamic scholars are required to explain them. To fully implement Islamic law, Muslims have the option to refer to the elaboration of its rules which are outlined in the form of a fatwa, especially when it comes to activities that will result in judicial proceedings. Thus, fatwas are inherent and apply to Muslims when viewed from a substantive sociological perspective. DSN-MUI is in a good position to exercise its authority. The ratification of Law Number 21 of 2008 concerning Sharia Banking strengthens this. The DSN-MUI fatwa product functions as an unwritten legal basis for Islamic finance. The DSN-MUI fatwa is a formal basis with binding authority for Sharia financial institutions, especially Sharia banking and Sharia non-bank institutions in general, even though it is an unwritten basic rule. The DSN-MUI fatwa is used as authority in Sharia banking. This means that all Sharia financial products must follow Sharia rules and principles. The moral principles and aspirations of those involved in evil economic activities in Islam are the same, because they are tasked with managing the operating system of Islamic financial institutions. As a result, they bear a heavy burden in managing operational Islamic financial institutions and the goods they sell must comply with sharia law. And DSN-MUI is the body that controls decision-making and assesses whether a product is following sharia (Aliyah, 2023).

4. Conclusions

The DSN-MUI fatwa is a set of rules for community life that is not binding and there is no legal coercion. Law No. 21 of 2008 concerning Islamic Banking, through certain patterns, there is an obligation for regulators in this case Bank Indonesia so that the content contained in the MUI Fatwa can be absorbed and transformed in formulating Sharia principles in the field of Islamic economy and finance into the regulatory content material. Laws that have legal force and are generally binding. The existence of the DSN-MUI fatwa shows its role as a guideline for the implementation of Sharia principles in Sharia banking since the enactment of Law No. 21 of 2008 concerning Sharia Banking which requires stakeholders to pay attention to and adjust business activities following Sharia principles. The role of the DSN-MUI fatwa in encouraging the implementation of Sharia banking can be indicated by a large number of Sharia Commercial Banks and Banks with Sharia Business units that started operations after MUI established the National Sharia Council.

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