



Challenges of Islamic Banking in Indonesia in Developing Products

Zulfikar

Department Syariah and Economics Academy of Islamic Studies University of Malaya

Author Email: zulfikarhasan61@gmail.com

Received: 04th October 2020

Accepted: 25th October 2020

Published: 28th October 2020

Abstract

The purpose of this research is to explain what are the challenges that have been faced and will be faced by Islamic banking in Indonesia to produce Islamic banking products to compete with conventional banking. Islamic banking product innovation that must be carried out by the Islamic banking industry is following the policy directions that have taken determined by Bank Indonesia. In conducting product innovation, the Islamic banking industry must be smart to take advantage of opportunities technological development by providing ICT-based products, so that more people are interested. Product innovations took out Islamic banking should pay regard to the economic and social dimensions from the financial aspect, banking product innovation Shariah which carried out for product development must be in an industry with the requirements of the customers, only by still complying with sharia rules (shariah compliance). Thus, product innovation can give birth to a variety of bank products. As the Islamic banking industry based on Islamic values, Islamic banking has a strategic role from the social aspect, namely by conducting education to the public, through product innovations that can characterize people's behaviour. From the results of research accompanied by researchers, several challenges can prevent the development of Islamic banking products in Indonesia, such as limited funds from Islamic banks and the lack of full support from the Indonesian government.

Keywords: Islamic banking, developing, innovation, product



OPEN ACCESS

INTRODUCTION

Every business needs to make a breakthrough continuously so that consumers do not feel bored with the products that often consumed. Besides, every entrepreneur must also be aware, in addition to problems or problems of saturation, even no less frightening and always needs to be a challenge is the competitor itself. Therefore, it is necessary to innovate products produced and marketed continually. The financial industry is none other than experiencing this, namely businesses in the world of labour, especially Islamic banking when compared to conventional banking. Conventional banking has long played its role as a financial institution serving the people of Indonesia has been very long compared to Islamic banking. So inevitably Islamic banking must be even more active in product innovation if it wants to have more market share while simultaneously being able to win the competition also if it predicted to take a very long time.

The sharia financial industry in Indonesia is experiencing quite good development (Utama and Handini 2017). The development of the Islamic banking industry influenced by various factors, namely internal factors such as Human Resources (HR), funding, good corporate governance, and external factors such as economic growth and national and international sharia institutional infrastructure. One of the sharia institutional infrastructures at the national level that drives the growth of sharia banks is the Financial Services

Authority (OJK). OJK continues to encourage and direct Islamic banks towards the sharia banking industry that is healthy, sustainable, and contributes positively to supporting quality economic development. Good developments in the Islamic finance industry have a positive impact on the economy of the community.

The Islamic banking industry can make a significant contribution in transforming the economy into productive, value-added and inclusive economic activities. With its impressive progress in development, which is reaching 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 is increasingly significant. This strategic role continues to be encouraged by several policies that have been established by the competent institutions. This is evident that one of OJK's policy priorities in 2016 in the banking sector, is to increase the contribution of Islamic banking to the national economy (Financial Services Authority 2015). Important agendas in the context of banking development sharia in Indonesia continue to carried out in synergy between industry players and the government through the National Sharia Finance Committee (KNKS), OJK and cooperation of sharia banks in Indonesia.

Statistics from the Financial Services Authority (OJK) show, the total assets of conventional banks in 2018 reached Rp 8.1 quadrillion. This figure increased to 9.22% compared to the

previous period of Rp 7.4 quadrillion. The growth of conventional bank assets last year slowed slightly when compared with growth in 2016 which was 10.4% and 2017 amounted to 9.76%. In general, the average annual growth of conventional bank assets since 2012-2018 is 12.02%. The same thing also happened to the development of Islamic bank assets. In 2018, sharia bank assets grew 12.5% (YoY) to Rp 477 trillion compared to 2017 at Rp 424 trillion. The average growth of Islamic bank assets, in general, is higher than conventional banks, which is 18.81% in 2012-2018. In line with the development of Islamic bank assets, the penetration of Islamic banks since 2014 has continued to increase. In 2014, the penetration of Islamic banks only reached 4.85% of the entire banking industry. By 2018, that number had risen to 5.91%.

The total assets of Islamic banks in November broke through IDR 400 trillion for the first time. Islamic Banking Statistics The Financial Services Authority (OJK) notes that sharia banks' assets in November 2017 grew 12.6% to Rp 401.45 trillion from the end of the previous year. The amount consists of Rp 278 trillion Sharia Commercial Bank and Sharia Business Unit (UUS) valued at Rp 123.4 trillion. At present, there are 34 sharia banks, consisting of 34 Sharia Commercial Banks and 21 Sharia Banks, with a total of around 57 thousand employees. The Third-Party Funds (DPK) collected up to November 2017 reached Rp 322.7 trillion with profit-sharing financing of Rp 112.75 trillion. In November 2017, the Islamic banks' Capital Adequacy Ratio (CAR) reached 17%, and the financing ratio to third parties (FDR) was 80.07% while the rate of problematic financing (NPF) reached 5.27%.

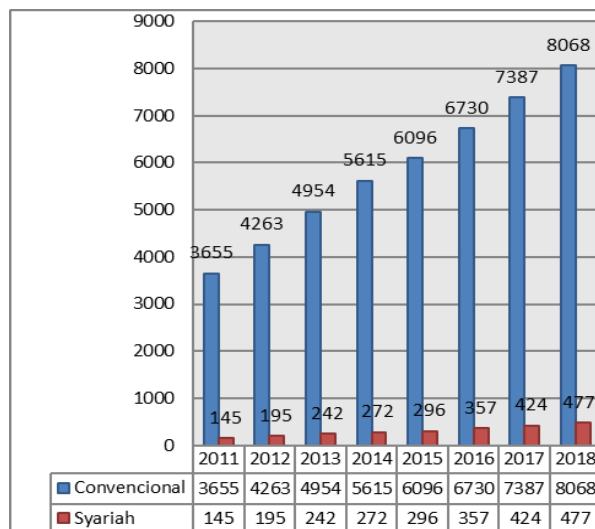


Figure 1: Sharia and Conventional Banking Assets

From the above data, it is obvious the difference from the total assets of conventional banking and Islamic banking, in terms of assets only Islamic banking is very far behind that of conventional banking will have a significant impact on operational and economic transactions in Indonesia. When looking at other facts that the market share of Islamic banking in Indonesia is still not up to 10 per cent, of course, this will make it difficult for Islamic banking to compete with conventional banking, plus many non-bank financial institutions appear in Indonesia where the function is the same as in banking in general. In addition to the challenges above, many problems will be faced by Islamic banking to be able to stay afloat in the Indonesian economy, such as limitations in innovating to issue several banking products, and this will

undoubtedly have a significant impact on Islamic banking when customers prefer conventional banking because customers see of banking products offered.

Decelerating growth in assets of the Islamic banking industry recognized by the Financial Services Authority (OJK). According to this institution, there are many reasons why the growth of Islamic banking industry assets has slowed significantly in the last two years. The rapid growth of Islamic banking assets a few years ago occurred because of the small value of the assets of these industry players. Therefore, any slightest addition of assets will be seen as a significant percentage. Regarding the growth of Islamic banking, there was a slowdown in growth. The increase is very fast because the total assets are small so that if it grows, there will be a large percentage. Apart from the factor of asset size, the slowdown occurred due to the difficulty of Islamic financial industry players in finding financing customers. He stated this difficulty based on data per semester I / 2019.

Until the first half of this year, the ratio of financing to the funding of Islamic banks (grant to deposit ratio / FDR) recorded at 80%. The low rate shows the number of funds or capital of Islamic banks that not channeled into financing. The amount of funding of disbursed by Islamic commercial banks (BUS) and Islamic business units (UUS) as of the end of August 2019 grew 10.83% annually to Rp337.6 trillion. This growth was slower than the same period last year when BUS and UUS financing grew 13.48% year-on-year (YoY) from Rp268.4 trillion to Rp304.6 trillion. Even though the sharia banking market share is slow-growing, there is a consistent increase in funding customers. According to the OJK analysis, every six months, the growth rate of third-party funds (DPK) managed by BUS and UUS always grows to 1 million accounts.

In the interest of innovation in banking products, Islamic banks have made a series of innovation efforts, one of which is by "engineering" the contracts in Muamalah fiqh. Some arrangements in muamalah fiqh are not simply adopted by Islamic banking but are also "adapted" to the needs of the public for banking services. Engineering and adaptation is indeed a necessity because if it is adopted, it has done as it is then the product Islamic banks can undoubtedly provide benefits to the community. In the increasingly competitive banking and financial industry, innovation is a business carried out by Islamic banking through a series of adaptations is indeed already a demand for business. But as a business entity that is a part important in the sharia economic system as its parent, the sharia banking industry must not come out and deprived of sharia values. Innovation is indeed a business demand, but maintaining sharia compliance is also an obligation for every sharia business, including sharia banking. Profit-oriented can only be used as a medium (tool) to achieve goals (goals), namely maslahah-oriented (P3EI UII, 2007).

How Islamic banking can compete with conventional banking in Indonesia, of course, in the range of services such as banking, various kinds of innovation, and technology are needed that can provide benefits and can compete with non-bank financial institutions. Various innovations and policies are needed that can improve the performance of Islamic banking in Indonesia in addition to getting full support from the government.

Referring to these conditions, the innovation of Islamic banking products at least pays attention to change in two dimensions, namely economic and social aspects. Innovation in the market size means that Islamic banking products must be able to present products that fit the needs of the community so that Islamic banks are the community's top choice. If this can be done, then the functions of Islamic banks will be able to play their role as intermediary institutions.

That topic is very important to be developed so that it can be used as a reference and description of what are the challenges, especially in developing sharia banking products. Sharia banking products in Indonesia are seen as still not various when compared to conventional banking products. The role of the government, in this case, is needed to improve the ability of Islamic banks to carry out their duties following Islamic law, one of which is by developing product products that can provide benefits to customers, the wider community, and of course to Islamic banking itself. Hopefully, this paper can provide some benefits to academics and practitioners who are engaged in the field of Islamic banking, not only in Indonesia but also abroad.

LITERATURE REVIEW

Islamic Financial Institutions and Regulations

In principle, conventional financial institutions and institutions. Islamic finance is the same, namely as an intermediary between two parties; the party with excess funds (surplus funds) and those who lack funds (deficit funds). According to Ascarya, the Islamic Bank is a financial institution whose purpose is to expedite economic devices in the actual sector within business projects (investment, buying and selling, or another) based on Sharia postulates, particularly customs of agreement based on Islamic law leaving banks and different individuals for depositing funds and financing projects. Businesses, or other activities that stated following Sharia values that are macro or micro. Thus, in addition to the horizontal relationship, Islamic banking must also pay attention to aspects of the vertical relationship between humans and their Lord.

Furthermore, meaningful differences to Law number 10 of 1998 and Law number 21 of 2008 are the prerequisites of sharia as sharia compliance with Islamic banking necessity be expressed and set ahead declared by the Indonesian Ulama Council (MUI) known as the National Sharia Council fatwa (MUI) DSN). Before the founding of BMI (the first profit-sharing Syariah bank) in Indonesia in 1992 and after the issuance of Law Number 10 of 1998 on Banking became a vital period related to the existence of the Islamic Financial Institution at this time began with a lot of discussion about ideas and ideas for implementing Islamic economic values in financial institutions.

Sharia banking in its enterprise implements a profit and loss sharing system. This policy does not involve conventional banking that includes an interesting system (Sasmitasiwi et al., 2007). Islamic banks are not related to religious rituals (Islam) but rather are the concept of sharing the results of operations among the capital owner and the capital manager. Hence the management of banks with sharia systems can be reached and managed by all affected communities countless in the Islamic community. Nevertheless, it not dismissed until now Islamic banks in Indonesia have only developed in the Islamic community. Inspected from this viewpoint, the possibility for

bank development sharia in Indonesia is tremendous because Indonesia is a country that holds the largest Muslim population. Development of Islamic banks in Indonesia in the future needs new tactics, besides paying regard to the religious market and also extending Islamic bank products for the volatile market. (Yusdani, 2005).

According to Law No. 19 of 2002, innovation is a research project, development and engineering carried out intending to expand the practical application of new systematic values and contexts or even new ways to apply existing science and technology to products or their production manners. Meanwhile, according to Kuniyoshi Urabe (1998), innovation is any activity that cannot cause with one hit, but preferably a long and collective process, requiring many decision-making processes, from the discovery of ideas to its implementation in the market. The innovation of sharia financial and banking products is a significant staple in the development of the sharia banking industry, of course, progress must support by the competence of human resources which are not only reliable but still adhere to Islamic principles (Tho'in, 2016). Islamic banks necessity has innovative products that are more assorted to develop correctly. Innovation must likewise make so that Islamic bank products are not monotonic and assertive with individual contracts amid the various business needs of the community. Therefore, the Financial Services Authority (FSA) proceeds to strengthen Islamic financial industry players to continue to innovate to meet the needs of the community. OJK also explained various product innovations that can be carried out by Islamic financial institutions, as included in the 2017-2019 Islamic Finance Development Roadmap.

Islamic Banking Products

Islamic banking based on the opinion of profit-sharing. The elements that persist in aforementioned Islamic banking product give an alternative banking method that is commonly helpful for both crowds, namely society and banking, as fine as supporting property features in activities, moral investments, affection and ukhuwah excellence in result, and bypassing risky activities in economics (Henni, 2011). Islamic banking products, currently being produced, namely by presenting a kind of products and a variety of banking services with more different financial designs Product innovation undertaken by Islamic banking can be in the sort of products that inclination be repackaged (repackage) or new products.

In another research, public understanding of Islamic banking products is one of the various crucial circumstances for the public in using Islamic bank products. Though, in fact, in 2016, the public's understanding of Islamic banking products is yet shallow. That indicated in the National Literacy and Financial Inclusion Survey conducted by the Financial Services Authority, which found that the Islamic financial literacy index was 8.11 per cent. In comparison, the Islamic financial inclusion index of 11.6 per cent; this indicates that people's understanding of Islamic financial products is still shallow. That strengthened the results of research conducted by Rivai et al. (2015). They found that Islamic banking has not been able to provide something new perceptions of Islamic banking products themselves. In other words, Islamic banking should be able to build a different image in the eyes of consumers with the uniqueness of the Islamic banking products themselves. Meanwhile, another problem faced by Islamic banking is the impression of exclusiveness, that Islamic

banking can only be used by people who are Muslim only because of Islamic banking products more managed by using Arabic symbols. The figure of exclusivity impressed by the number of Islamic banking products which use the Arabic term without regard to the efficiency and effectiveness of the use of the situation amidst plural society.

Furthermore, to improve company profits and secure customer commitment to banks, companies need to enhance product innovation and service quality. Product innovation can be likened to the scenery. The includes exterior facilities (landscape, exterior design, parking, and environment), as well as interior facilities (interior design, decoration, accessories, arrangement, air quality, temperature and atmosphere. That way customers/customers will feel comfortable when innovative products are existing in the company has met the standards. Innovation problems products virtually all contemporary pieces of equipment in the company must secure customer satisfaction from the comfort of a relaxed seat the room, the serenity in the place, as well as the aroma of the room, the room design instructions.

Indonesian Islamic banks should be able to market higher quality products to compete with other banks. With market development, for example, it is hoped that this strategy can carry out if customers feel bored with old products. Can also be done with product development, by way of changes or improvements to the deficiencies that can obtain from comments or input from Islamic bank customers. That way, not only will get innovations but also will add value to the creativity of the Islamic bank itself. To increase the creativity of sharia banking products, quality human resources are needed, because HR is a significant component in sharia financial product innovation. Quality sharia banking human resources is a force that can drive the growth of the sharia banking business. But, in shari'ah banking, the officers do not fully understand shari'ah banking.

RESULTS AND DISCUSSION

The Key to Success of the World Islamic Economy

One of the challenges that must be answered immediately by Islamic banking is related to the lack of optimal Islamic banking services, especially the provision of Islamic banking products, namely by innovating Islamic banking products. Islamic banking product innovation is a requirement to follow the trend so that Islamic banking becomes a stable industry and a choice for the community. Islamic banking must innovate products by utilizing opportunities for the use of ICT by providing various products to develop correctly. Islamic banking product innovation is an effort that must do so that Islamic banking can grow and compete with conventional banking and other financial institutions. Moreover, when viewed from the aspect of contribution to the Indonesian economy, the use of various Islamic financial products and instruments will be very beneficial. The use of Islamic financial products that are closer to the real sector will create good relations between the financial industry and the real sector. With the increasing use of Islamic financial products and instruments, transactions are of nature speculative will be reduced to strengthen overall financial system stability. That, of course, will create medium-term and long-term price stability, so that economic activities run healthily, create a healthy business climate, and ultimately the business community will also flourish.

Even though it has excellent development potential, Islamic banking is yet considered weak in product innovation to offered to the public, in extension to initial products such as Murabaha and mudharabah—one of the performances of Islamic banking from profit-loss sharing products, namely profit and loss shared. However, what is happening right now, profit-loss sharing products have not been maximized by Islamic banking. Observing at the explications to the success of the world sharia economy, there are five influential factors correctly full support from the government, and sharia finance started as a national program. This unique body organizes authorizations linked to the halal industry concentrates on marketing the superiority of a country's products. Sharia economy has a strategy which includes structural reforms in government.

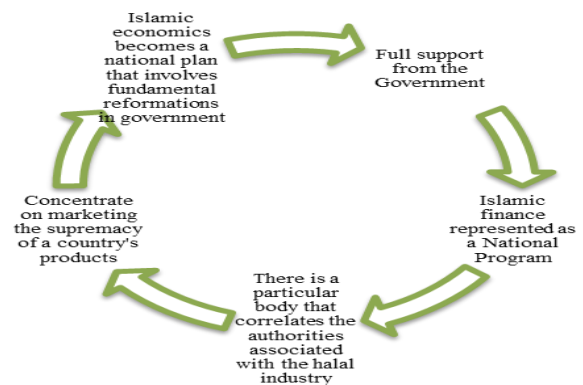


Figure 2: The key to success of the world Islamic economy

The Challenges of Islamic Banking (Product Innovation)

The development of Islamic banking after the issuance of a fatwa on usury was not as smooth as one might imagine. In consequence of the fatwa, many people believe that this is a breath of fresh air for Sharia banking in the form of increased customer impact on the performance of Sharia banking. Nevertheless, this assumption is not 100% correct. In fact, up to now, Sharia banking in Indonesia faces pressing challenges that must quickly be determined. In addition to taking advantage of opportunities, Islamic banking including expected to handle several challenges, which are frequently complex (1) Challenges in human resources and information technology, (2) Sharia banking regulations, (3) Challenges in facing crises, (4) Competition Challenges.



Figure 3: The Challenges of Islamic Banking (Product Innovation)

The first challenge is the limitations of human resources and information technology. Although Sharia banking assets are still far compared to conventional banking assets, Sharia banking expansion from year to year is even more significant.

The results in the emergence of a gap in human resources, both in quantity and quality. The high expansion of sharia banking not followed by an adequate supply of human resources. Until 2015, it estimated that there is a gap between the needs and the availability of human resources in Islamic banking, reaching 20,000 people (Alamsyah, 2015).

This gap still added to the needs of 5900 graduates of Islamic banking study programs that cannot be fulfilled by educational institutions. In 2015, universities in Indonesia could graduate 1,500 graduates of Islamic banking. Nevertheless, not each of the 1,500 graduates absorbed due to the competence mismatch within graduates and the needs of the banking industry. At present, the number of Islamic finance/banking study programs in Indonesia reaches more than 100 study programs. A whole that needs to add. Nevertheless, the Sharia banking industry considers that the majority of graduates of the Sharia banking and economic studies program in Indonesia are not yet ready to use for the needs of the financial sector. The encourages the industry to recruit new employees from graduates of general study programs.

The above mismatch condition is caused by the education curriculum and training materials in the field of Islamic finance also not yet well standardized. There is no standardized curriculum that can produce graduates ready to use in the Islamic banking industry. Support from the Ministry of Research and Higher Education is needed to encourage curriculum standardization and the types of expertise that can be used by Islamic banking. On the other hand, the Islamic banking / financial industry can also jointly conduct research to identify the types of expertise needed so that it can 'link and match' with the world of education. In addition to human resources, information technology is also a severe problem in the Islamic banking business. For small-scale Sharia banks and BPRS (Sharia Rural Banks), the limited capacity of information technology and the need to develop products and product marketing is a challenge. As a bank with a still small size, the development of information technology independently can be assured of high costs (costly).

The second challenge relates to regulatory support. Although Bank Muamalat started the birth of the first Islamic bank in Indonesia on November 1, 1992. The momentum of the rise of Islamic banking began since the advent of Law No.21 of 2008 concerning Islamic Banking. Through the Sharia Banking Law, the opportunity to grow Islamic banking is increasingly wide open. However, Islamic banking still needs support from derivative regulations issued by various authorities, especially the Financial Services Authority, Bank Indonesia, and the Ministry of Finance. Policy support primarily intended to encourage the role of Islamic banking in moving the real sector. OJK support, for example, in terms of stimulating and facilitating the birth of Islamic banking products. Then encourage Islamic banks to utilize asset securitization (tawriq) to add alternative long-term funding.

Then the form of government support for example by directing the placement and distribution of funds owned by the government and SOEs in Islamic banking, especially those directly related to public interests such as social assistance funds, hajj funds, and so on. In contrast to efforts to support Sharia banking, after the formation of the Hajj Financial Management Board (BPKH), the government planned the use of hajj funds for infrastructure projects. The problem is, the

placement of Hajj funds in Islamic banking reached IDR62.6 trillion from the total Hajj funds, which reached IDR99.3 trillion. If there is a reallocation of hajj funds for infrastructure, inevitably, the liquidity of Islamic banking will increasingly erode. The government should optimize support so that the Sharia banking market share can exceed 5%. Like the Islamic banking market share in Malaysia, which reached 25% thanks to the total support of the government.

The third challenge is related to the management of crisis risks faced by Islamic banking. The durability of Islamic banking is facing the crisis has been tested when the 1997/98 economic crisis proved that Bank Muamalat survived the disaster. However, it is different from the conditions at the time, now with the increasingly significant role of Islamic banking in the national economy, the risks faced are also more meaningful. Based on OJK's publication, the ratio of non-performing financing to sharia banks (non-performing financing) is still at an alarming level of 4.75% as of May 2017. The NPF ratio of sharia banks almost touches the safe limit of 5% bad credit ratio. Even the rate of non-performing loans to Islamic banking exceeds the ratio of bad loans to conventional banks, which reached 3.07% as of May 2017.

The high NPF ratio illustrates that Islamic banking still has difficulty channeling customer funds effectively, thereby causing opportunities to increase profits getting smaller. Evidenced by the Islamic banking return on assets (ROA) ratio, which is still tiny at 1.11% as of May 2017. Compare with the conventional banking ROA ratio, which reached 2.46% in the same period. Besides, sharia banking is also facing short-term liquidity risk reflected by an increase in a short-term mismatch. This indicator compares the ability of Islamic banks to meet short-term obligations through short-term assets. Short term mismatch ratio of sharia banking continues to increase from 18.22% (2014), 20% (2015), 22.54% (2016) to reach 43.36% in May 2017. The overturn in sharia banking assets and short-term liabilities, finally forcing Islamic banks to look for sources of short-term funding at higher costs. One alternative financing is through the Interbank Money Market Based on Sharia Principles (PUAS). One of the available PUAS instruments is the sale transaction of sharia securities with a promise to repurchase (repurchase agreement) or sharia repo according to the provisions of PBI No.17 / 4 / PBI / 2015.

The fourth challenge faced by Islamic banking is the ability to compete not only with conventional banking but also with non-bank financial institutions, amid an economic slowdown that caused low growth in deposits and commercial bank credit. Islamic banking showed a brilliant performance related to the growth of DPK and Credit. Growth in Islamic banking deposits increased from 6.11% in 2015 (YoY), 20.83% in 2016 (YoY), and 24% in May 2017 (YoY). Whereas in the same period the growth of commercial bank deposits only grew 9.6% (2016) and 11.18% as of May 2017. Besides, sharia banking credit growth also carved a brilliant performance with credit growth of 18.5% (2015), 20.96% (2016), and 24.67% as of May 2017 (YoY). Sharia banking credit growth outstripped commercial bank credit growth of 10.44% (2015), 7.87% (2016) and 8.71% as of May 2017. This situation should be a sign that Islamic banking has a strong belief in collecting and distributing public funds.

Potential that can explore to increase opportunities for the rate of Islamic banking is the industry or sector that has links with

the expenditure of Muslim middle-class households in Indonesia. Some industries that can be entered by Islamic banking with its Islamic financing platform include halal food/beverage products, daily necessities and halal tourism. Indonesia, with an economic structure which is more than 55% supported by household consumption, makes the food and beverage industry develop rapidly. On the other hand, the growing middle class in Indonesia, making this sector will continue to grow in the future. The ever-increasing middle class is a sign that its consumption ability is improving. On the other hand, the development of information technology is one of the drivers of increasing public awareness of halal products in Indonesia.

Furthermore, the community's lack of understanding of Islamic economic/financial concepts and products. Islamic financial markets are still in the national market segment—only a small proportion of people who have classified in the type of sharia loyalists. The traditional problem that is still a known brand which reviewed, in general, is Islamic banking which increases problematic procedures that are considerably complicated and waste the time that not restricted, the cost is higher related to conventional banking, and the quality of human resources that felt is still not reliable instead in interpreting the contract Islamic banking contracts so that they are not much different from conventional bank contracts.

Moreover, sharia banking product varieties are less assorted, so innovation in financing products needs to do. Most of the financing agreements agreed between banks and consumptive-based consumers with a sale-purchase or Murabahah design. The demand is admittedly still a lot of Murabaha, and banks are more involved in handling Murabaha contracts because the margin is relatively high while the risk is moderately low. Meantime, deals with profit-sharing principles or Mudharabah serve not to dominate even though profit sharing is the main principle in sharia-based financing. Accordingly, innovation in Islamic banking products is still one of the strategic issues in the 2015-2019 Islamic Banking Roadmap that must be resolved immediately. Various things related to the low variety of Islamic banking products are inadequate capital, small industrial measure, low efficiency, expensive funding costs, insufficient quantity and quality of human resources, and inadequate information technology support.

Opportunity to Develop Islamic Banking Products in Indonesia

Sharia recommendations and compliance in sharia financial structures are necessary prerequisites for commercial structures in sharia financial institutions in many countries. Financial fatwa plays an integral part in the development of Islamic financial products. Without explicit endorsement from a sharia perspective, sharia financial products cannot successfully market. A fatwa in the context of Islamic banking and finance is the opinion of the Sharia Board that meets the requirements on the structure of Islamic financial products, for examples such as mortgages, implementation of management, such as investment managers and operational activities of Islamic financial institutions. If the fatwa issued by the government or related authorities, it can be binding on market participants. In the absence of Islamic law in most countries, including those with a majority Muslim population, it is essential to do an independent verification of sharia products, practices and operations of Islamic financial

institutions. Ideally, a confirmation must come from government authorities such as central banks or other financial regulators. The best choice remains the government's authority because it has law enforcement power. Other organizations are ineffective unless the government accepts their sharia standards and makes them binding on Islamic financial institutions.

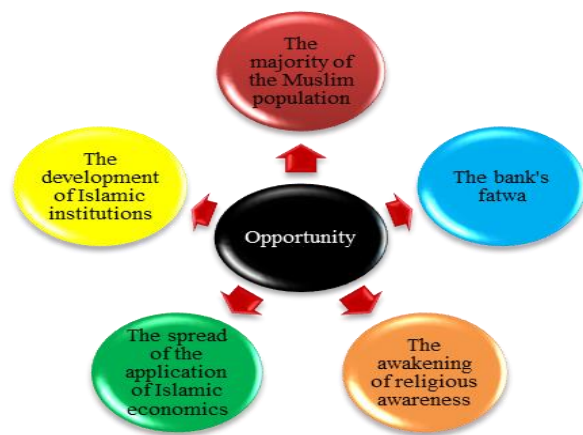


Figure 4: Opportunity to develop Islamic banking products in Indonesia

Tremendous opportunities and wide open for Islamic banking in Indonesia are reasonable. There are at least several arguments to reinforce this opinion. First, the majority of the Muslim population. This quantity is a possible market country. When Muslims want to get the advantage of the sharia bank, it will improve more immediately and passionately. Though, no means dismissing non-Muslim customers, even a challenge for shari'ah banking people to complete it. Some foreign sharia banks already have non-Muslim customers. Second, the bank's fatwa. This fatwa can display legitimacy for Islamic banking in socializing their job. People require to be knowledgeable that there are opportunities, even solutions to avoid interest, change the system for profit sharing that is more equitable.

Although it does not necessarily get stuck with emotional preferences, it still supports professional humanism with the image of a healthy and sharia bank trusted. Third, the arousal of religious awareness. That marked by the advance of religious celebrations such as performance and wayfaring of executives and celebrities, the substantive discussion of Islam in campus or mosque, including dawn lectures on radio and television. There remain even devices or institutions that endure constant spiritual events. Of course, all of this contributes quite a lot in stimulating spiritual consciousness, including for implementing the Islamic economy. Fourth, the expanse of the application of Islamic economics. Currently, there is sharia insurance (takaful), sharia pawnshop, sharia cooperative, capital market and Sharia bonds include the Sharia hotel business. In turn, implementing excuses for Islamic banks to so great do networking, so it will be more advanced and can be reciprocally advantageous. Fifth, the development of Islamic institutions. The appearance of Islamic parties after the transformation at least influenced the social living environment. Muslims develop as lawmakers. It concluded that the policies are following sharia and thoroughly support the progress of Islamic banks. The establishment of Islamic economic high schools or many universities that open Islamic economics programs and the growth of attending

Islamic schools is a valuable stock to print forces of Islamic economists and bankers.

The linkages between Indonesia's economy dominated by consumption, the growing middle class and increasing public awareness of the existence of halal products have become an excellent opportunity for Sharia banking. Islamic banking can enter new products with its halal trademark. One of the successful outcomes with the halal label is cosmetics. The third potential is halal tourism. The growing Muslim middle class and the need for recreation make halal tourism a new possibility to develop. Until now, one of the icons of halal tourism in Indonesia is in Lombok. Besides Lombok, there are still many potential tourist spots in Indonesia that can develop using Sharia banking services. In addition to the above economic sector, the opportunity for Islamic banking is launching product innovations to enter into businesses that have great opportunities. These businesses include syndicated financing, hybrid take over, international trade finance, Margin During Construction (MDC), refinancing, factoring, indent KPRS, reimbursing financing, IMBT and Ijarah Maushifah fiz Zimmah, and Musyarakah Mutanaqishah. With product innovation that continues to be carried out by the Islamic banking world in Indonesia, the market and industry needs can immediately meet so that Islamic banks can compete on a national and global scale. This product innovation, of course, must always be shariah-compliant. Therefore, the existence of the MUI DSN fatwa is fundamental.

Exposure to the challenges and opportunities above should process into a force that drives the growth of Islamic banking. The least point market share (assets) that reaches the 5 per cent amount can realize quickly—pushing collaboration required among related stakeholders such as the Financial Services Authority, the Government (Ministry of Research and Higher Education, Ministry of Finance, Ministry of Religion), Bank Indonesia to prepare those challenges and opportunities into the depths of Islamic banks. Do not let the proverbial rat starvation in rice barns occur in our Islamic banking.

CONCLUSION

Islamic bank product innovation in Indonesia has two legal sources before they released to the public. The products Islamic banks comprise the association (funding), financing (financing) and services. Of the three product segments, it relies on Act Number 07 of 1992 concerning Banking, Law Number 10 of 1998 changes to Law Number 07 of 1992 and Law Number 21 2008 concerning Sharia Banking as a basis for formal legal law. Besides that, specifically in Islamic banking principles, its operations must be based on sharia principles, which in this case must be poured and issued in the form of a fatwa by a fatwa institution as a reference for shariah compliance, National Sharia Council-Indonesian Ulama Council (DSN-MUI).

While the position of the fatwa on product development and Sharia bank services arranged that the fatwa came later after the banking product launched. Thus, the DSN-MUI fatwa less has a significant influence on the development Indonesian Islamic bank products and services. The statement of the fatwa causes the was issued only in response to bank products sharia which has been implemented first as a demand for a law relating to Shariah-Compliance (Shariah Compliance). Then the position of the fatwa does not innovate by itself to provide regulation before the launch of Islamic bank products and services.

In addition to the multiple challenges that will be faced by Islamic banking in developing banking products, similar companies likewise need to make regulations that are most proper for the Indonesian market. Product innovation is one of the crucial maneuverings in Islamic banking development. With the development of new products within the method of network improvement, the fulfilment of Islamic regulations, achieving financial stability, and advancements in product innovation activities, Islamic banks will be able to attract the interest of the community and obtain new customer-based. Islamic banking must increase cooperation with various parties, especially OJK, in ensuring that the public knows new products (literacy) and uses new products, and other networks. This escort should be carried out by the OJK both within the framework of consumer protection, as well as enhancing refinement on Islamic banking products. The purpose that should proceed to carry out is by conducting education, information services, as well as improving complaint services and other facilities for consumers.

The journal that researcher make is only seeing at the hurdles that Islamic banking will face in making products that are of benefit to customers. The intense rivalry between Islamic banking and conventional banking will have a bearing on the number of customers in both banks. So Islamic banking needs to make innovations or update surviving banking products to keep moving with the times. Hopefully there will be other writers who can research Islamic banking products and can contribute to produce even better research results.

REFERENCES

- Ascarya. (2006). Akad dan Produk Bank Syariah: Konsep dan Praktek di beberapa Negara. Jakarta: Bank Indonesia.
- Booklet Perbankan Indonesia (2016) 3rd ed. Jakarta: Departemen Perizinan dan Informasi Perbankan Otoritas Jasa Keuangan. Perbankan-Indonesia-2016.aspx. in access <https://ojk.go.id/id/kanal/perbankan/data-dan-statistik/booklet-perbankan-indonesia/Pages/Booklet-Perbankan-Indonesia-2016.aspx>
- Fitri, Al (2014). Beberapa Permasalahan Perbankan Syariah di Indonesia." <https://doi.badilag.mahkamahagung.go.id/artikel/publikasi/artikel/>
- Gunawan, Cakti Indra, Ahmad Mukoffi, and Adrian Junaidar Handayanto (2017). Model Strategi Perbankan Syariah Menghadapi Persaingan Perbankan Di Era Masyarakat Ekonomi ASEAN. *Research Report 0* (0): 835–44. <http://doi.research-report.umm.ac.id/index.php/research-report/article/view/1305>.
- H. A. Khumaidi Ja'far (2016). Peluang Dan Tantangan Perbankan Syari'ah Di Indonesia, Fakultas Syariah IAIN Raden Intan Lampung Jl Endro Suratmin Sukarame Bandar Lampung. 34-37. <https://doi.org/10.24042/asas.v8i2.1246>
- Harahap, Ahmad Taufiq (2017). Tantangan Dan Peluang Lembaga Keuangan Syariah. *Jurnal Bisnis Corporate*.
- Haryanto, Sindung (2011). *Sosiologi Ekonomi*, Yogyakarta: Ar-ruz Media. 45-46
- Himatansi (2009). Metode Dan Pilar Inovasi Produk Bank Syariah. <http://doi/www.himatansi.org>
- <http://www.iaei-pusat.org/article/perbankan/inovasi-produk-perbankan-syariah-bagian-1-ari-3-tulisan-->

- 1?language=id, <http://doi.www.iaei-pusat.org/article/perbankan>
- <http://www.republika.co.id/berita/bisnis-syariah/berita/10/11/09/145328-asing-banyakmeminta-fatwa-dewan-syariah-nasional>
- Hudaya, Riandar Fata (2011). Strategi Inovasi Produk PT. Bank Panin Syariah Tbk Dalam Meningkatkan Daya Saing Antar Sesama Bank Syariah Dan Konvensional." Universitas Islam Negeri Syarif Hidayatullah Jakarta. 76-78. <http://dx.doi.org/10.29040/jie.v1i02.154>
- Indriati, Henni. (2011) Analisis Faktor-Faktor Yang Mempengaruhi Inovasi Produk Perbankan Syariah Di Indonesia." Jakarta: Universitas Indonesia. 4-7. <http://doi.10.21580/economica.2018.9.1.2053>
- Kian, Lia. (2016). Syariah Compliance Untuk Pengembangan Inovasi Produk Perbankan Syariah Di Indonesia.. https://www.researchgate.net/publication/321197350_Syariah_Compliance_Untuk_Inovasi_Produk_Bank_Syariah. 10-11. <https://dx.doi.org/10.21580/economica.2018.9.1.2053>
- M. Hafidz MS (2015). Keterlekatan Sosial Inovasi Produk Bank Syariah Di Indonesia, *Jurnal Hukum Islam (JHI)*, Volume 13, Nomor 2, Desember 2015, (70-78) Website: <http://e-journal.stain-pekalongan.ac.id/index.php/jhi> Copyright @ 2015, JHI, ISSN 1829-7382, (70) AM. Jurusan Syariah dan Ekonomi Islam STAIN Pekalongan
- M. Hafidz MS., AM. 2015. "Keterlekatan Sosial Inovasi Produk Bank Syariah Di Indonesia." *Jurnal Hukum Islam* 13 (2): 70–78. <https://doi.org/10.28918/jhi.v13i2.486>.
- Model Inovasi Produk Perbankan Syariah di Indonesia Modul Keuangan Syariah. Jakarta: Otoritas Jasa Keuangan (2017). In <https://www.ojk.go.id/id/kanal/syariah/default.aspx>
- Otoritas Jasa Keuangan. (2015). Booklet Perbankan Indonesia 2015. 2nd ed. Jakarta: Departemen Perizinan dan Informasi Perbankan Otoritas Jasa Keuangan. <https://ojk.go.id/id/kanal/perbankan/data-dan-statistik/booklet-perbankan-indonesia/default.aspx>
- Roadmap Perbankan Syariah 2015-2019. Jakarta: Departemen Perbankan Syariah Otoritas Jasa Keuangan. Syariah-Indonesia-2015-2019. In access <https://www.ojk.go.id/id/kanal/syariah/berita-dan-kegiatan/publikasi/Pages/Roadmap-Perbankan-Syariah-Indonesia-2015-2019.aspx>
- Tho'in, M. (2011). Pengaruh Faktor-faktor Kualitas Jasa terhadap Kepuasan Nasabah di Baitul Mal Wat Tamwil (BMT) Tekun Karanggede Boyolali. *MUQTASID Jurnal Ekonomi dan Perbankan Syariah*, 2(1), 73-89.
- Tho'in, M. (2011). Pengaruh Faktor-faktor Kualitas Jasa terhadap Kepuasan Nasabah di Baitul Mal Wat Tamwil (BMT) Tekun Karanggede Boyolali. *MUQTASID Jurnal Ekonomi dan Perbankan Syariah*, 2(1), 73-89.
- Tjiptono, Fandy. (2005). Pemasaran Jasa. Jakarta: Bayu Media Publishing.
- Ulum, Fahrur. (2014). Inovasi Produk Perbankan Syariah di Indonesia. *Jurnal*, Vo. 17, No. 1. Umar, Husein. (1999). Metode Penelitian dan Aplikasi dalam Pemasaran. Jakarta: Gramedia Pustaka Utama.
- Urabe, Kuniyoshi. Child, John. Kagono, Tadao. (1998) *Innovation and Management: International Comparisons*. Walter de Gruyter, Berlin; New York.
- Utami, Anggit dan Y, Anni Aryani, (2004). Pengaruh Faktor-Faktor Kualitas Jasa Terhadap Kepuasan Nasabah (Studi Kasus Di Bsm Cabang Surakarta). Fakultas Ekonomi UNS: *Jurnal Akuntansi dan Bisnis* Vol. 4.