

Vol. 6. No. 2 (2023) 141-155	E-ISSN: 2723-4681	P-ISSN: 2722-2764
Published online on the journal's website: http://jurnal.iailm.ac.id/index.php/mutawasith		

Sharia Banking Business Activities in Indonesia: Review of Law No. 21 of 2008 on Sharia Banking

Fauziah Latiefa Salsabila, Edwin Hadiyan

Master of Islamic Studies Syarif Hidayatullah State Islamic University, Indonesia

Latifah Mubarakiyah Suryalaya Institute Islamic Religion, Indonesia

Email: fauziah.latiefas@gmail.com; edwinhadiyan.ip@gmail.com

Submitted:	Reviewed:	Revised:	Published:
25-09-2023	09-12-2023	13-12-2023	31-12-2023
DOI: https://doi.org/10.47971/mjhi.v6i2.762			

Abstract

Islamic banking business activities in Indonesia currently have a significant impact. The Indonesian government has enacted Law No. 21 of 2008 on Sharia Banking, which serves as the foundation for the regulation of activities pertaining to Islamic Banking Business. The objective of this legislation is to establish a favorable environment for the operation of Sharia banking business and to integrate Sharia principles into the activities of Sharia banking. This study using normative legal research with qualitative methods. The purpose of this scholarly article is to examine the regulatory aspect of Islamic banking activities in Indonesia, explore potential innovations that can be implemented by Islamic banking, and analyze the strategies employed by Islamic banking. Consequently, it is anticipated that this study will contribute to a more comprehensive understanding of the provisions outlined in Law No. 21 of 2008 on Sharia Banking.

Keywords: Sharia Banking, Business Activities, Law No. 21 of 2008 on Sharia Banking

A. INTRODUCTION

The proposal for the creation of the Sharia Banking Law in Indonesia was presented by Commission XI of the People's Consultative Assembly of the Republik of Indonesia. This process was initiated in the year 2002 when Bank Indonesia (BI) conducted comprehensive research and prepared scholarly documents. Subsequently, one year later, BI presented an academic manuscript to the DPR RI and the government for careful consideration in the process of drafting the bill. The commencement of drafting the bill occurred in 2005, and from February 2007 to June 2008, it underwent deliberation by the government, which consisted of the

Ministry of Finance (Kemenkeu), the Ministry of Religion (Kemenag), and the Department of Law and Human Rights (Depkumham).¹

The legislation encompasses thirteen sections and seventy articles, which encompass: 1) general provisions; 2) principles, objective, and functions; 3) license, legal entity form, articles of associations, and ownership; 4) type and business activities, the feasibility of channeling funds, and restrictions for Sharia Banks and Sharia Business Units (UUS); 5) controlling shareholders, board of commissioners, sharia supervisory board, directors, and foreign workers; 6) governance, prudential principles, and risk management in Sharia Banking; 7) bank secrecy; 8) coaching and supervision; 9) dispute resolution; 10) administrative sanctions; 11) fine provisions; 12) transitional provisions; and 13) closing provisions.²

Prior to the enactment of Law No. 21 of 2008, further regulations pertaining to the business activities of commercial banks based on sharia principles were governed by Bank Indonesia through the Decree of the Board Directors of Bank Indonesia Number 32/34/KEP/DIR dated 12 May 1999 concerning Commercial Banks based on Sharia Principles. Subsequently, the aforementioned decree was substituted and altered by Bank Indonesia Regulation No. 6/24/PBI/2004, which pertains to the operations of commercial banks conducted in accordance with the principles of Sharia. This regulation was further amended by Bank Indonesia Regulation Np. 7/35/PBI/2005.³

The sharia banking business activities in Indonesia are founded upon the enactment of Law No. 21 of 2008, which pertains to sharia banking and took effect on the 6th April 2008, which pertains to sharia banking business activities have begun to flourish within Indonesia. Law No. 21 of 2008, serving as the inaugural legislation in relation to Sharia Banking in Indonesia, outlines the objectives of sharia banking, which primarily encompass the execution of sharia banking business activities that are duly regulated based on sharia principles. This endeavor aims to achieve a sharia economy and implement economic empowerment initiatives for the people, guided by the Functional Theory of Community Economy.⁴

For the purpose of ensuring that sharia banking business activities adhere to sharia principles, Law No. 21 of 2008 also establishes a monitoring mechanism. Business activities associated with Sharia Banking are exclusively conducted by financial institutions that adhere to Sharia principles and have obtained authorization from the OJK.⁵ Furthermore, the fiscal and monetary policies determined by Bank Indonesia provide support for sharia banking business activities. The principal aims to enhance community empowerment through the reinforcement of financial inclusion. However, in light of the associated risks, Bank Indonesia also oversees and restricts risk taking and the issuance of sharia financial instruments carried out by sharia banking.⁶

¹ Dewan Perwakilan Rakyat Indonesia, "Academic Manuscript of the Draft Sharia Banking Law" (Dewan Perwakilan Rakyat Indonesia, 2005).

² Otoritas Jasa Keuangan, "Law on Sharia Banking Law no. 21 of 2008" (Indonesia, 2008).

³ Rachmadi Usman, *Sharia Banking Products and Contracts in Indonesia* (Bandung: Citra Aditya Bakti, 2009).

⁴ Agus Suryono, *Social Change Theory and Strategy* (Jakarta: Bumi Aksara, 2019).

⁵ Adrian Sutedi, *Legal Aspects of the Financial Services Authority* (Jakarta: Raih Asa Sukses, 2014).

⁶ Wafik Grais and Matteo Pellegrini, *Corporate Governance And Shariah Compliance In Institutions Offering Islamic Financial Services*, Policy Research Working Papers (The World Bank, 2006), <https://doi.org/10.1596/1813-9450-4054>.

Similar to previous scholarly investigations, specifically the research conducted by Effendi (2014)⁷, Hidayat & Surahman (2017)⁸, Shandy (2020)⁹, Supriadi & Ismawati (2020)¹⁰, and Syarlas (2021)¹¹, it was discovered that the presence of Law No. 21 of 2008 holds considerable significance for the banking sector, particularly in facilitating effective management. Moreover, it should be emphasized that the implementation of this legislation serves as a vital endeavor in fostering the growth and development of business. Thus, Law No. 21 of 2008 serves as legislation that regulated and supports sharia banking business activities in Indonesia. This encompasses policies that ensure adherence to sharia principles, facilitate the participation of Sharia Financial market players, and streamline and expand sharia financing mechanisms. Overall, sharia banking business activities in Indonesia can operate harmoniously.

B. METHODOLOGY

This study entails normative legal research conducted through a descriptive methodology. In the real of normative legal research, library materials assume the role of fundamental data classified as secondary data within the research field. Subsequently, these materials are elucidated or scrutinized through a qualitative method that the comprehension and explication of this research.

C. RESEARCH AND DISCUSSION RESULTS

1. Sharia Banking Business Actors

a. Sharia Commercial Bank (BUS)

Relevant to the Law Republic of Indonesia No. 10 of 1998 which has undergone revision by Law No. 7 of 1992 pertaining to banking. Financial institutions that participate in commercial activities and/or adhere to Islamic principles in order to provide payment-related services are commonly referred to as BUS. Additional affirmation can be observed in the Most Recent Law No. 21 of 2008 concerning sharia banking, wherein BUS are explicitly referred to as sharia banks that render payment-related services.¹²

b. Sharia Business Unit (UUS)

UUS is governed by Law No. 21 of 2008, which is a component of Conventional Commercial Banks that serves as the principal establishment for multiple service units that function in accordance with sharia principles.¹³ Furthermore, UUS can also serve as a division within a foreign branch office of a bank, with the purpose of overseeing traditional business

⁷ Arif Effendi, "Sharia Banking Industry in Indonesia in the Perspective of Law Number 21 of 2008 Concerning Sharia Banking," *Wahana Akademika* 1 No.2 (2014), <https://doi.org/10.21580/wa.v1i2.809>.

⁸ Yayat Rahmat Hidayat and Maman Surahman, "Analysis of the Achievement of Sharia Bank Goals in Accordance with Law No. 21 of 2008," *Amwaluna: Jurnal Ekonomi Dan Keuangan Syariah* 1, no. 1 (February 24, 2017): 34–50, <https://doi.org/10.29313/amwaluna.v1i1.1996>.

⁹ Andrew Shandy Utama, "Development of Sharia Banking in Indonesia," *UNES Law Review* 2, no. 3 (May 11, 2020): 290–98, <https://doi.org/10.31933/unesrev.v2i3.121>.

¹⁰ Supriadi Supriadi and Ismawati Ismawati, "Implementation of Sharia Banking Principles to Maintain Customer Loyalty," *Jurnal Hukum Ekonomi Syariah*, April 17, 2020, <https://doi.org/10.30595/jhes.v0i0.7002>.

¹¹ Giffari Syarlas, "Sharia Banking and the Conversion of Conventional Banks into Sharia Banks Seen from Positive Law," *JISIP (Jurnal Ilmu Sosial Dan Pendidikan)* 5, no. 2 (March 4, 2021), <https://doi.org/10.58258/jisip.v5i2.1942>.

¹² Keuangan, "Law on Sharia Banking Law no. 21 of 2008."

¹³ Keuangan.

operations and serving as the central establishment for Sharia sub-branch offices or sharia units.¹⁴

UUS is an establishment of a financial nature or corporate entity that functions in compliance with the principles of sharia. UUS attains economic and commercial objectives similar to those of other corporations, but disallowing any activities that contravene the tenets of Islamic teachings. Conforming to sharia principles necessitates UUS to proscribe *riba* (usury), speculation, and abstain from endorsing financial tools, investment instruments, or contracts that contradict the teachings of sharia.¹⁵

c. Sharia People's Financing Bank (BPRS)

BPRS is a fiscal institution that operates in accordance with the tenets of Sharia and *Muamalah* within the framework of Islam, which are governed by Law No. 21 of 2008.¹⁶ Within society, this particular type of bank is renowned for its efficiency and swiftness in serving micro, small, and medium entrepreneurs. Historically, BPRS was also known as village barn, village bank, and village merchant bank. In addition to providing credit, BPRS also accepts savings from the general public using sharia principles. The majority of BPRS service users are comprised of farmers, livestock breeders, fishermen, traders, small entrepreneurs, employees and retirees. Several examples of BPRS in Indonesia include BPRS *Amanah Rabbaniyah*, BPRS *Amanah Ummah*, BPRS *Artha Karimah Irsyadi*, and others.¹⁷

2. Principles of Business Activities/Sharia Banking Products

a. Deposit (*Wadiah*)

The *wadiah* contract is a modality employed within the sharia-compliant financing framework for savings products procured from external entities. Analogous to widely recognized checking and savings accounts accessible to the general public, depositors may elect to utilize *Wadiah* current accounts or *Wadiah* savings. The recipient of the funds assumes the responsibility of safeguarding and preserving the entrusted assets, which may be withdrawn by the depositor at their discretion.¹⁸

b. Profit Sharing

The succeeding principle of sharia banking business activities/products is the principle of profit sharing. This principle is subdivided into various principles, including: *First*, *Mudharabah*. *Mudharabah* entails an agreement forged between the possessor of the funds and the individual or management organization accountable for overseeing the joint enterprise. Both parties will distribute the outcomes of the business in predetermined proportion. The possessor of the funds, known as *Shahibul Maal*, transfers the premium to an entrepreneur who will jointly administer the enterprise with the possessor of the funds, and the funds will be managed by the operator. There exists an agreement that authorizes the

¹⁴ Muammar Arafat Yusmad, *Legal Aspects of Sharia Banking from Theory to Practice*, 1st ed. (Yogyakarta: Deepublish, 2018).

¹⁵ Imtiaz Mohammad Sifat and Azhar Mohamad, "Revisiting Fiat Regime's Attainability of *Shari'ah* Objectives and Possible Futuristic Alternatives," *Journal of Muslim Minority Affairs* 38, no. 1 (January 2, 2018): 1–23, <https://doi.org/10.1080/13602004.2018.1435057>.

¹⁶ Keuangan, "Law on Sharia Banking Law no. 21 of 2008."

¹⁷ Aufa, Mimma, and Syahdatul Maulida, "Efficiency, Performance, Potential Improvement And Dual Banking Analysis of BPR & BPRS In West Java," *Review on Islamic Accounting* 2, no. 1 (November 24, 2022), <https://doi.org/10.58968/ria.v2i1.104>.

¹⁸ Reza Henning Wijaya, "Tinjauan Fikih Dan Praktik Akad Al-Wadiah Pada Perbankan Syariah Di Indonesia," *Jurnal Ilmiah Mahasiswa Manajemen, Bisnis Dan Akuntansi (JIMMBA)* 3, no. 2 (May 24, 2021): 302–10, <https://doi.org/10.32639/jimmba.v3i2.816>.

Shahibul Maal and the entrepreneur to joint bear the losses at the culmination of the specified period. In the event that a profit is realized, it will be divided according to *Mudharabah* framework.¹⁹

Second, Musyarakah. *Musyarakah* is a form of cooperation between two or more parties for a specific purpose. Each party will contribute funds and the profit will be shared according to the agreed agreement. This is also supported by Statement of Financial Accounting Standards (PSAK) No. 106.²⁰ Meanwhile, losses are determined by the amount of funds contributed. *Musyarakah* can also be interpreted as an agreement made by several parties to participate together in capital management, where each party provides investment and enjoys the right to take legal action against the capital that has been managed.²¹

Third, the term *Muzara'ah* can be traced back to its etymological roots in the Arabic word "az-zar" denoting the act of depositing seeds into the soil or engaging in cultivation. *Muzara'ah* in essence, encompasses a cooperative arrangement involving land proprietors and cultivators whereby the former offers agricultural land for rent to the latter, thereby enabling them to engage in the planting and nurturing of crops in exchange for a proportionate share of the ensuing harvest.²²

Fourth, the concept of *Mukhabarah*, entails the utilization of another party's land for various processing activities, such as the cultivation of rice fields or other types of land. As per the agree-upon terms, the individual or entity availing themselves of the land must undertake the responsibility of sharing a portion of the profits derived from their endeavors. The appointed individual responsible for such tasks carries out the process of cultivating seeds and subsequently spreading the resulting harvest. The distribution of the profits can be allocated in equal halves, hundredths, halves, thirds, or quarters. However, it's crucial to note that the costs associated with labor and the requisite seeds must be borne by the party undertaking the work. *Mukhabarah* can also be construed as a collaborative venture between landowners and managers aimed at facilitating the efficient administration of agricultural land or plantations, thereby maximizing the overall yield.²³

c. Buy and Sell

The next principles of Sharia Banking business activities/product are the basic principles of buying and selling transactions which are an agreement between buyers and sellers to exchange goods or services for money. This is divided into several principles, including: *First, Murabahah.* *Murabahah* is a system of buying and selling developed by Islamic banks.²⁴

¹⁹ Muhammad Shahrul Ikwat Ishak and Md. Habibur Rahman, "Equity-Based Islamic Crowdfunding in Malaysia: A Potential Application for *Mudharabah*," *Qualitative Research in Financial Markets* 13, no. 2 (June 7, 2021): 183–98, <https://doi.org/10.1108/QRFM-03-2020-0024>.

²⁰ Ikatan Akuntan Indonesia, "Statement of Financial Accounting Standards (PSAK) No. 106" (Ikatan Akuntan Indonesia (IAI), 2011).

²¹ Faisal, "Sharia Banking Rights and Obligations in Implementing Musyarakah Agreements Based on Indonesian Law," *International Journal Reglement & Society (IJRS)* 1, no. 1 (May 30, 2020), <https://doi.org/10.55357/ijrs.v1i1.4>.

²² Moch. Khoirul Anwar and Hariyati Hariyati, "Economic Perspective, Cultural Perspectives, and Sharia Perspective in Revenue Sharing For Village Economic Empowerment (Case Study on Gaduh Culture in East Java)," *AFEBI Islamic Finance and Economic Review* 2, no. 01 (August 10, 2017): 25, <https://doi.org/10.47312/aifer.v2i01.61>.

²³ A. Asnawi, A.A. Amrawaty, and Nirwana, "Mukhabarah as Sharia Financing Model in Beef Cattle Farm Entrepise," *IOP Conference Series: Earth and Environmental Science* 119 (February 2018): 012068, <https://doi.org/10.1088/1755-1315/119/1/012068>.

²⁴ Gholamreza Zandi, "Some Issues on Murabahah Practices in Iran and Malaysian Islamic Banks," *AFRICAN JOURNAL OF BUSINESS MANAGEMENT* 6, no. 24 (June 20, 2012), <https://doi.org/10.5897/AJBM11.2859>.

Murabahah transaction is a sale and purchase of goods where the buyer and seller agree and know the purchase price paid by the buyer along with the profits applied by the seller. The seller must disclose the initial price paid and also determine the level of profit to be paid by the buyer. *Second, Salam. Salam* is often also called *as-salaf* which means goods that are resold with certain characteristic.²⁵ The seller is still obliged to fulfill his responsibilities, but payment must be made quickly or in cash. *Third, Istishna. Istishna* is a trade transaction based on requests carried out between customers (*mustashni'*) and Bank based on criteria such a type, type or model, quality and quantity.²⁶ In this contract, both parties agree on the method of payment and the delivery period for the ordered goods.

d. Rent (*Ijarah*)

Ijarah is a contractual arrangement that result in the conveyance of the privilege to utilize or derive benefits from an asset for a specified duration, accompanied by the payment of rent (*ujrah*), devoid of any transfer of ownership of the said asset. The fundamental elements of *Ijarah* encompass the *ijab qabul* (offer and acceptance), the involved parties in the agreement (contract), the subject matter of the contract, the advantages derived from the utilization of the asset, and the *sighat* of *Ijarah* (the formal declaration of the agreement).²⁷

e. Service

The ultimate principle of Sharia Banking business activities/product is known as the service principle. This particular principle can be further categorized into several principles, one of which is *wakalah*. *Wakalah* is an arabic term that signifies the act of entrusting, representing, and safeguarding.²⁸ In essence, *wakalah* is encompassed within the concept of *al-Hifzu*, which denotes guarding and protecting. According to the viewpoint of scholars, there are four prerequisites that must be fulfilled for a *wakalah* transaction, namely: the presence of a person who conveys the representation (*muwakkil*), the presence of a person who receives the representation (deputy), the existence of something being represented (*al-muwakkal fiih*), and the words or actions that indicate an exchange of permission and acceptance (*sighah*). This *wakalah* principle has been extensively implemented in the Islamic financial system.²⁹

Second, kafalah refers to a contractual arrangement wherein the guarantor/*kafii* commits to providing collateral to the guaranteed party, who may be referred to as the *Makfuul'anhu* or *Ashil*. This valuable asset is employed to fulfill the obligations that are owed by the party who is assured to another individual, commonly known as the *Makful Lahu*. It's important to note that the guarantees in *Kafalah* can take the form of material guarantees, as well as general guarantees, which encompass corporate guarantees and personal guarantees. Third, *hawalah* serves as a mechanism facilitating the transfer of debts or receivables, both in

²⁵ Obaid Saif Al Zaabi, "Salam Contract in Islamic Law: A Survey," *International Association for Islamic Economics Review of Islamic Economics*, n.d.

²⁶ Abidin Abidin, Sapruddin Sapruddin, and Murniati Ruslan, "Communities Resistency Toward Istishna Funding Policy," *HUNafa: Jurnal Studia Islamika* 19, no. 2 (December 10, 2022): 211–36, <https://doi.org/10.24239/jsi.v19i2.681.211-236>.

²⁷ Siti Sarah Razak, Buerhan Saiti, and Yusuf Dinç, "The Contracts, Structures and Pricing Mechanisms of Sukuk: A Critical Assessment," *Borsa Istanbul Review* 19 (August 2019): S21–33, <https://doi.org/10.1016/j.bir.2018.10.001>.

²⁸ Marina Abu Bakar and Nur Fatin Husna Mohd Nasir, "Wakalah Bi Al-Istithmar: A Case Study of Wafiyah Investment Account Bank Islam Malaysia Berhad (BIMB)," *International Journal of Academic Research in Business and Social Sciences* 11, no. 7 (July 26, 2021): Pages 1412-1436, <https://doi.org/10.6007/IJARBS/v11-i7/10598>.

²⁹ Prasetyono Hendriarto, "Relevance on Islamic Principle Law with Application at the Field: Review of Islamic Banking Publication in Indonesia," *International Journal of Business, Economics & Management* 4, no. 1 (February 17, 2021), <https://doi.org/10.31295/ijbem.v4n1.800>.

the possession of an individual or an organization. *Hawalah* contract involves three distinct entities: the debtor (referred to as *muhil* or *madin*), the lender (known as *muhil* or *da'in*), and the recipient of the debt transfer (*muhil 'alaih*). *Hawalah* contracts can be categorized into two types, namely *mutlaqah* and *muqayyadah*.³⁰ In the case of *mutlaqah*, the debtor transfers his debt to another person without any linkage to the receivables associated with him. On the other hand, *muqayyadah* involves the debtor transferring the debt while establishing a connection to the receivables that are in possession of the other party.³¹

3. Sharia Banking Business Activities

Based on Law No. 21 of 2008 concerning sharia banking, clause 19, 20, and 21 provide a description of the business activities of BUS, UUS, and BPRS. To make it easier to see the differences between one another, the types of business activities are presented in table form.³²

Table 1
Bussiness Activities of BUS, UUS, and BPRS

BUS	UUS	BPRS
1a. Collect funds in the form of savings in the form of current accounts, savings, or other similar forms based on <i>Wadiah</i> contracts or other contracts that do not conflict with sharia principles.	2a. Collect funds in the form of savings in the form of current accounts, savings, or other similar forms based on <i>Wadiah</i> contracts or other contracts that do not conflict with sharia principles.	Collecting funds from the community in the form of: 1. Savings in the form of savings or something equivalent based on a <i>Wadiah</i> contract or other contract that does not conflict with sharia principles. 2. Investments in the form of deposits or savings or other similar forms based on <i>Mudharabah</i> contracts or other contracts that do not conflict with sharia principles.
1b. Collecting funds in the form of investments in the form of deposits, saving, or other similar forms based on <i>Mudharabah</i> contracts or other contracts that do not conflict with Sharia principles.	2b. Collecting funds in the form of investments in the form of deposits, saving, or other similar forms based on <i>Mudharabah</i> contracts or other contracts that do not conflict with Sharia principles.	Distribute funds to the community in the form of: 1. Profit sharing financing based on <i>Mudharabah</i> or <i>Musyarakah</i> contracts.

³⁰ Nur Vianti, "Implementation of The Hiwalah Academic in Social Environment and Sharia Financial Institutions," *MORFAI JOURNAL* 3, no. 2 (April 21, 2023): 196–206, <https://doi.org/10.54443/morfai.v3i2.851>.

³¹ Maryam Sofia Mohd Suhaimi et al., "Service Based Contract Used in Islamic Finance: A Comparison of Hawalah, Wakalah, and Kafalah," *International Journal Of Management and Applied Research* 3, no. 4 (September 30, 2016): 160–71, <https://doi.org/10.18646/2056.34.16-013>.

³² Keuangan, "Law on Sharia Banking Law no. 21 of 2008," 21.

		<p>2. Financing based on <i>Murabahah</i>, <i>Salam</i>, or <i>Istishna</i> contracts.</p> <p>3. Financing based on <i>Qardh</i> agreement.</p> <p>4. Financing the rental of movable or immovable goods to customers based on an <i>Ijarah</i> or hire purchase agreement in the form of <i>Ijarah Muntahiya Bittamlik</i>.</p> <p>5. Debt takeover based on the <i>Hawalah</i> agreement.</p>
1c. Distribute profit sharing financing based on <i>Mudharabah</i> contracts, <i>Musyarakah</i> contracts, or other contracts that do not conflict with Sharia principles.	2c. Distribute profit sharing financing based on <i>Mudharabah</i> contracts, <i>Musyarakah</i> contracts, or other contracts that do not conflict with Sharia principles.	Placing funds with other sharia banks in the form of deposits based on <i>Wadiah</i> contracts or investment based on <i>Mudharabah</i> contracts and/or other contracts that do not conflict with sharia principles.
1d. Distribute financing based on <i>Murabahah</i> , <i>Salam</i> , <i>Istishna'</i> contracts, or other contracts that do not conflict with Sharia principles.	2d. Distribute financing based on <i>Murabahah</i> , <i>Salam</i> , <i>Istishna'</i> contracts, or other contracts that do not conflict with Sharia principles.	Transferring money, both for own interests and for the interest of customers through BPRS accounts at sharia commercial banks, conventional commercial banks, and UUS.
1e. Distribute financing based on <i>Qardh</i> contracts or other contracts that do not conflict with sharia principles.	2e. Distribute financing based on <i>Qardh</i> contracts or other contracts that do not conflict with sharia principles.	Providing products or carrying out other sharia bank business activities in accordance with sharia principles based on approval from Bank Indonesia.
1f. Distribute financing for rental of movable or immovable goods to customers based on <i>Ijarah</i> and/or hire purchase contracts in the form of <i>Ijarah Muntahiya Bittamlik</i> or other contracts that do not conflict with Sharia principles.	2f. Distribute financing for rental of movable or immovable goods to customers based on <i>Ijarah</i> and/or hire purchase contracts in the form of <i>Ijarah Muntahiya Bittamlik</i> or other contracts that do	-

	not conflict with Sharia principles.	
1g. Carry out debt takeovers based on <i>Hawalah</i> contracts or other contracts that do not conflict with sharia principles.	2g. Carry out debt takeovers based on <i>Hawalah</i> contracts or other contracts that do not conflict with sharia principles.	-
1h. Carry out debit card and/or financing card business based on Sharia principles.	2h. Carry out debit card and/or financing card business based on Sharia principles.	-
1i. Buy, sell, or guarantee at your own risk third party securities issued on the basis of real transactions based on sharia principles. Including among others, such as <i>Ijarah, Musyarakah, Mudharabah, Murabahah, Kafalah, or Hawalah</i> contract.	2i. Buying and selling third party securities issued on the basis of real transactions based on sharia principles. Including among others, such as <i>Ijarah, Musyarakah, Mudharabah, Murabahah, Kafalah, or Hawalah</i> contract.	-
1j. Purchase securities based on Sharia principles issued by the government and/or Bank Indonesia.	2j. Purchase securities based on Sharia principles issued by the government and/or Bank Indonesia.	-
1k. Receive payments from bills on securities and carry out calculations with third parties or between third parties based on Sharia principles.	2k. Receive payments from bills on securities and carry out calculations with third parties or between third parties based on Sharia principles.	-
1l. Carry out a deposit for the benefit of another party based on an agreement based on Sharia principles.	2l. Providing a place to store goods and securities based on Sharia principles.	-
1m. Providing a place to store goods and securities based on Sharia principles.	2m. Transferring money, both for own interests and for the interests of customers based on Sharia principles.	-
1n. Transfer money, whether according to your own wishes or according to the customer's wishes based on Sharia principles.	2n. Provide letter of credit or bank guarantee facilities based on Sharia principles.	-
1o. Performs functions as trustee based on the <i>Wakalah</i> agreement.	2o. Carry out other activities commonly carried out in the banking sector and in the	-

	social sector as long as they do not conflict with Sharia principles and are in accordance with the provisions of laws and regulations.	
1p. Providing letter of credit or bank guarantee facilities based on sharia principles.	-	-
1q. Carry out other activities commonly carried out in the banking sector and in the social sector as long as they do not conflict with sharia principles and are in accordance with the provisions of laws and regulations.	-	-

Explanation of additional business activities of BUS and UUS is contained in clause 20 paragraphs 1 and 2 of Law No. 21 of 2008 concerning sharia banking, the explanation is in the following table:³³

Table 2
Additional Business Activities of BUS and UUS

BUS	UUS
1a. Carrying out foreign exchange activities based on Sharia principles.	2a. Carrying out foreign exchange activities based on Sharia principles.
1b. Carrying out capital participation activities in BUS or financial institutions that carry out business activities based on Sharia principles.	2b. Carrying out activities in the capital market as long as they do not conflict with Sharia principles and statutory provisions in the capital market sector.
1c. Carrying out temporary capital investment activities to overcome the consequences of failure in financing based on Sharia principles, with the condition that the investment must be withdrawn.	2c. Carry out temporary capital investment activities to overcome the consequences of failure to finance based on Sharia principles, with the condition that you have to withdraw your investment.
1d. Acting as founder and administrator of pension funds based on Sharia principles.	2d. Organizing bank activities or product based on Sharia principles using electronic means.
1e. Carrying out activities in the capital market as long as they do not conflict with Sharia principles and statutory provisions in the capital market sector.	2e. Issuing, offering, and trading short term securities based on Sharia principles either directly or indirectly through the money market.

³³ Keuangan, "Law on Sharia Banking Law no. 21 of 2008."

1f. Organizing bank activities or product based on Sharia principles using electronic means.	2f. Providing products or carrying out other UUS business activities based on Sharia principles.
1g. Issuing, offering, and trading short term securities based on Sharia principles, either directly or indirectly through the money market.	-
1h. Issuing, offering, and trading longterm securities based on Sharia principles, either directly or indirectly through the capital market.	-
1i. Providing product or carrying out other BUS business activities based on Sharia principles.	-

Explanation of prohibited business activities are stated in clause 24 paragraph 1 and 2 (BUS and UUS), and clause 25 (BPRS) in Law No. 21 of 2008 concerning sharia banking, the explanation is in the following table:³⁴

Table 3
Prohibited Business Activities

BUS	UUS	BPRS
1a. Carry out business activities that are contrary to Sharia principles.	2a. Carry out business activities that are contrary to Sharia principles.	a. Carry out business activities that are contrary to Sharia principles.
1b. Carry out share buying and selling activities directly on the capital market.	2b. Carry out stock seling activities directly on the capital market.	b. Receive deposits in the form of Giro and participate in payment traffic.
1c. Make capital investments, except as intended in clause 20 paragraph (1) letters b and c.	2c. Make capital investment, except as intended in clause 20 paragraph (2) letter c.	c. Carry out business activities in foreign currency, except for exchanging foreign money with permission from Bank Indonesia.
1d. Carry out insurance business activities, except as a marketing agent for Sharia insurance product.	2d. Carry out insurance business activities, except as a marketing agent for Sharia insurance product.	d. Carry out insurance business activities, except as a marketing agent for Sharia insurance products.
-	-	e. Carry out capital participation, except in institutions established

³⁴ Keuangan.

		to overcome liquidity difficulties in BPRS.
-	-	f. Carry out other the business activities as intended in clause 21.

4. Product Innovation in Sharia Banks

Sharia banking through the enactment of its operational business, operates on the fundamental objective of profit distribution or profit sharing. The sharia banking offerings manifest qualities that enable the selection of a banking framework that augments societal and banking welfare, while simultaneously adhering to principles of fairness during transaction execution and affording primacy to ethical values in investment, fostering collaboration and fraternity in production, and refraining from capitalization in consequences.

The development of products by sharia banks is underway, aims to offer a diverse range of services and financial methods, thereby introducing the concept of sharia bank product innovation. This endeavor holds significance as it represents a crucial stride towards implementing alternative options within the banking service system. Sharia bank emerges as the provider of an apt solution that can garner widespread acceptance throughout Indonesia. The essence of product innovation lies in its ability to cater to the needs of the community by offering a multitude of banking products. Such innovation encompasses both repackaging existing products and introducing new products

The production of sharia-compliant banking products must adhere to international standards and relevant strategies for manufacturing sharia products. The compatibility of the products can also be discerned through the suggested product mechanisms. Furthermore, the quality of product, the caliber of human resources, and the extent of network coverage of sharia banking establishments must adapt to the advancement of these products. Sharia banks must also process the capability to uphold the products that have been specified in the codification of sharia banking products. By means of codification, the development of products becomes more streamlined, as sharia banking merely needs to concentrate on producing product mechanisms that have received approval. There is no longer a necessity for special authorization from the OJK. Rather, it's solely required to report the realization to the OJK. Nevertheless, if a sharia bank desires to develop a product that has not yet been included in the codification, it must acquire permission from the OJK.

The evidence suggests that sharia banking in Indonesia is comparatively less innovative and significantly lagging behind in comparison to other nations. The findings derived from Baljeet's research conducted by the Kuwait Investment Company reveal that Indonesia is positioned within the third cluster, ranking below countries such as Bahrain, UAE, and Malaysia. Which have showcased remarkable advancements and progress in the sharia banking market. North Africa, Qatar, Brunei Darussalam, Turkey, and Indonesia serve as exemplars of countries situated in the fourth cluster, which signifies the group with the utmost level of progress. Nonetheless, these countries still trail behind as they remain subpar in comparison to nations within the fourth cluster.

5. Innovation Strategy for Sharia Banking Business Activities

At present, there exists an increasing need within the banking industry, comprising both Sharia and conventional establishments, for a specific form of prompt loan facility, encompassing unsecured loans as well as small-scale (micro) loans. However, it's crucial to note that particular product has the potential to elicit consumerist spending behavior.

Consequently, it becomes imperative to explore and develop goods and services that can effectively balance sectors oriented toward productivity, while simultaneously fostering strong relationships between banks and their customers. In order to accomplish this, a thorough investigation into profit sharing products, specifically *Musyarakah Mutanaqisah* and *Mudharabah Muqayyadah*, must be undertaken diligently. It's essential that endeavor involves all relevant stakeholders, ranging from industry players to supporting institutions. Undoubtedly, this is an extraordinary juncture, as the government has made significant efforts to afford individuals the opportunity to acquire affordable housing.

To enhance the expansion of the industrial sector, and to meet the desires of society and the industrial community, Bank Indonesia has established a task force comprising the National Sharia Council (DSN) - Majelis Ulama Indonesia (MUI) and the Indonesian Accountants Association (IAI) with the aims of examining the viability of products marketed overseas and offering pertinent suggestions to relevant institutions. The strategies employed for the marketing of these products involve collaboration with diverse media platforms, including radio, television, and print media. As well as, active participation in various events such as exhibitions (expos). In this manner, sharia-compliant product can attain broad recognition, allowing consumers to promptly avail themselves of the associated advantages. By implementing this approach, Islamic banks will experience greater gains in terms of both their portfolio and the promotion of novel offerings.

D. CONCLUSION

The analysis of Law No. 21 of 2008 regarding the Sharia Banking Business in Indonesia asserts that Sharia Banking in Indonesia must comply with the regulations outlined in this Law that encompass the domains of capital markets, financial services, and the operations of the Sharia Banking sector. This holds utmost importance in order to ensure that Sharia Banking institutions in Indonesia can function in a secure and stable manner, and to guarantee that Sharia finance in Indonesia adheres to the principles of Islamic law. Additionally, this Law also provides a comprehensive viewpoint on the regulations and governance that are applicable to Islamic banking in Indonesia and oversees the interactions among different stakeholders.

REFERENCES

- Abidin, Abidin, Sapruddin Sapruddin, and Murniati Ruslan. "Communities Resistency Toward Istishna Funding Policy." *HUNafa: Jurnal Studia Islamika* 19, no. 2 (December 10, 2022): 211–36. <https://doi.org/10.24239/jsi.v19i2.681.211-236>.
- Abu Bakar, Marina, and Nur Fatin Husna Mohd Nasir. "Wakalah Bi Al-Istithmar: A Case Study of Wafiyah Investment Account Bank Islam Malaysia Berhad (BIMB)." *International Journal of Academic Research in Business and Social Sciences* 11, no. 7 (July 26, 2021): Pages 1412-1436. <https://doi.org/10.6007/IJARBS/v11-i7/10598>.
- Al Zaabi, Obaid Saif. "Salam Contract in Islamic Law: A Survey." *International Association for Islamic Economics Review of Islamic Economics*, n.d.
- Anwar, Moch. Khoirul, and Hariyati Hariyati. "Economic Perspective, Cultural Perspectives, and Sharia Perspective in Revenue Sharing For Village Economic Empowerment (Case Study on Gaduh Culture in East Java)." *AFEBI Islamic Finance and Economic Review* 2, no. 01 (August 10, 2017): 25. <https://doi.org/10.47312/aifer.v2i01.61>.

- Asnawi, A., A.A. Amrawaty, and Nirwana. "Mukhabarah as Sharia Financing Model in Beef Cattle Farm Entrepise." *IOP Conference Series: Earth and Environmental Science* 119 (February 2018): 012068. <https://doi.org/10.1088/1755-1315/119/1/012068>.
- Aufa, Mimma, and Syahdatul Maulida. "Efficiency, Performance, Potential Improvement And Dual Banking Analysis of BPR & BPRS In West Java." *Review on Islamic Accounting* 2, no. 1 (November 24, 2022). <https://doi.org/10.58968/ria.v2i1.104>.
- Effendi, Arif. "Sharia Banking Industry in Indonesia in the Perspective of Law Number 21 of 2008 Concerning Sharia Banking." *Wahana Akademika* 1 No.2 (2014). <https://doi.org/10.21580/wa.v1i2.809>.
- Faisal. "Sharia Banking Rights and Obligations in Implementing Musyarakah Agreements Based on Indonesian Law." *International Journal Reglement & Society (IJRS)* 1, no. 1 (May 30, 2020). <https://doi.org/10.55357/ijrs.v1i1.4>.
- Gholamreza Zandi. "Some Issues on Murabahah Practices in Iran and Malaysian Islamic Banks." *AFRICAN JOURNAL OF BUSINESS MANAGEMENT* 6, no. 24 (June 20, 2012). <https://doi.org/10.5897/AJBM11.2859>.
- Grais, Wafik, and Matteo Pellegrini. *Corporate Governance And Shariah Compliance In Institutions Offering Islamic Financial Services*. Policy Research Working Papers. The World Bank, 2006. <https://doi.org/10.1596/1813-9450-4054>.
- Hendriarto, Prasetyono. "Relevance on Islamic Principle Law with Application at the Field: Review of Islamic Banking Publication in Indonesia." *International Journal of Business, Economics & Management* 4, no. 1 (February 17, 2021). <https://doi.org/10.31295/ijbem.v4n1.800>.
- Hidayat, Yayat Rahmat, and Maman Surahman. "Analysis of the Achievement of Sharia Bank Goals in Accordance with Law No. 21 of 2008." *Amwaluna: Jurnal Ekonomi Dan Keuangan Syariah* 1, no. 1 (February 24, 2017): 34–50. <https://doi.org/10.29313/amwaluna.v1i1.1996>.
- Indonesia, Dewan Perwakilan Rakyat. "Academic Manuscript of the Draft Sharia Banking Law." Dewan Perwakilan Rakyat Indonesia, 2005.
- Indonesia, Ikatan Akuntan. "Statement of Financial Accounting Standards (PSAK) No. 106." Ikatan Akuntan Indonesia (IAI), 2011.
- Ishak, Muhammad Shahrul Ifwat, and Md. Habibur Rahman. "Equity-Based Islamic Crowdfunding in Malaysia: A Potential Application for *Mudharabah*." *Qualitative Research in Financial Markets* 13, no. 2 (June 7, 2021): 183–98. <https://doi.org/10.1108/QRFM-03-2020-0024>.
- Kuangan, Otoritas Jasa. "Law on Sharia Banking Law no. 21 of 2008." Indonesia, 2008.
- Nur Vianti. "Implementation of The Hiwalah Academic in Social Environment and Sharia Financial Institutions." *MORFAI JOURNAL* 3, no. 2 (April 21, 2023): 196–206. <https://doi.org/10.54443/morfai.v3i2.851>.
- Razak, Siti Sarah, Buerhan Saiti, and Yusuf Dinç. "The Contracts, Structures and Pricing Mechanisms of Sukuk: A Critical Assessment." *Borsa Istanbul Review* 19 (August 2019): S21–33. <https://doi.org/10.1016/j.bir.2018.10.001>.
- Shandy Utama, Andrew. "Development of Sharia Banking in Indonesia." *UNES Law Review* 2, no. 3 (May 11, 2020): 290–98. <https://doi.org/10.31933/unesrev.v2i3.121>.
- Sifat, Imtiaz Mohammad, and Azhar Mohamad. "Revisiting Fiat Regime's Attainability of *Shari'ah* Objectives and Possible Futuristic Alternatives." *Journal of Muslim Minority Affairs* 38, no. 1 (January 2, 2018): 1–23. <https://doi.org/10.1080/13602004.2018.1435057>.

- Suhaimi, Maryam Sofia Mohd, Maryam Syamilah Md Fauzi, Noryatim Noryatim, Norashikin Mohd Noh, Nursyamimi Shuhaimin, Qurratulain Jaafar, Siti Maspuah Maulan, Zati Fatini Johan, and Aishath Muneeza. "Service Based Contract Used in Islamic Finance: A Comparison of Hawalah, Wakalah, and Kafalah." *International Journal Of Management and Applied Research* 3, no. 4 (September 30, 2016): 160–71. <https://doi.org/10.18646/2056.34.16-013>.
- Supriadi, Supriadi, and Ismawati Ismawati. "Implementation of Sharia Banking Principles to Maintain Customer Loyalty." *Jurnal Hukum Ekonomi Syariah*, April 17, 2020. <https://doi.org/10.30595/jhes.v0i0.7002>.
- Suryono, Agus. *Social Change Theory and Strategy*. Jakarta: Bumi Aksara, 2019.
- Sutedi, Adrian. *Legal Aspects of the Financial Services Authority*. Jakarta: Raih Asa Sukses, 2014.
- Syarlas, Giffari. "Sharia Banking and the Conversion of Conventional Banks into Sharia Banks Seen from Positive Law." *JISIP (Jurnal Ilmu Sosial Dan Pendidikan)* 5, no. 2 (March 4, 2021). <https://doi.org/10.58258/jisip.v5i2.1942>.
- Usman, Rachmadi. *Sharia Banking Products and Contracts in Indonesia*. Bandung: Citra Aditya Bakti, 2009.
- Wijaya, Reza Henning. "Tinjauan Fikih Dan Praktik Akad Al-Wadiah Pada Perbankan Syariah Di Indonesia." *Jurnal Ilmiah Mahasiswa Manajemen, Bisnis Dan Akuntansi (JIMMBA)* 3, no. 2 (May 24, 2021): 302–10. <https://doi.org/10.32639/jimmba.v3i2.816>.
- Yusmad, Muammar Arafat. *Legal Aspects of Sharia Banking from Theory to Practice*. 1st ed. Yogyakarta: Deepublish, 2018.