

## The Urgency of Using Syariah Method Facing Economic Crisis : to Compare with Conventional Method

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### ABSTRACT

The global economic crisis has resulted in various global financial institutions experiencing losses and bankruptcy. The recurring global financial crisis in the world requires solutions to be resolved and prevented. The global economic crisis has resulted in various global financial institutions experiencing losses and bankruptcy. The perfect Islamic Sharia is able to provide a way out of the grip of the global economic crisis that has hit many countries today. The Islamic economy is one of the significant steps the government must take in dealing with negative spreads and the vulnerability of the global economy. Sharia banking is considered to be more crisis resistant than conventional banking if economic conditions deteriorate. This is because Islamic banking is more flexible in dealing with any situation. Islamic banking is increasingly recognized in the community from day to day. Not only for Muslims, but also for those who are non-Muslims. This study aims to determine the Islamic economy as the best solution in solving the problem of the global economic crisis. The data used in this research is secondary data. The results of this study indicate that the Islamic economy is a solution to the global economic crisis. Islamic banking can help in overcoming the burden of the crisis in the short term and also in the future.

**Keywords:** *Economic Crisis, Syariah Method, Conventional Method*

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## INTRODUCTION

A monetary crisis is a condition faced by a country, because a crisis can occur due to internal factors and external factors. Indonesia experienced a period of crisis in 1997-1998. One of the sectors affected by the crisis is the banking sector. The policies issued by the monetary authority were unable to dispel the crisis that occurred in Asia, which caused the rupiah exchange rate against international currencies, namely the dollar, to experience a drastic decline. This has resulted in the burdens borne by the state and the private sector becoming bigger because foreign debt, imports, etc. use United States dollars, so that the demand for rupiah currency is getting bigger. For this reason, the government, through Bank Indonesia, printed more money and raised bank interest rates in order to attract funds from the public. However, this rescue action affected Bank financial institutions in Indonesia. Banks are not able to maintain bank liquidity as an intermediary institution that is obliged to process third party funds that have to deal with monetary policy raising bank interest rates.

The debtor experiencing default (NPL) is unable to pay the interest charged by the bank, so the level of public trust in the bank decreases. Due to the awry condition resulting from the crisis, if the public does not believe in banks as intermediary institutions capable of processing these funds, it is feared that the public will withdraw large amounts of funds which will cause it to collapse. Conventional banks are not able to keep up with the conventional economic system. With the use of interest, the condition worsens because of the interest expense that must be borne.

The establishment of Islamic banks in Indonesia was initiated by the existence of several fatwas from Islamic organizations in Indonesia regarding bank interest. Among them are the fatwa of the Muhammadiyah organization through the results of the Tarjih decisions in 1968 and 1972, the fatwa of the Nahdlatul 'Ulama through the Lajnah Bahsul Masa'il decision in 1982, the MUI fatwa No.1 of 2004 regarding bank interest and the latest fatwa from the decision of Tarjih and Tajdid Muhammadiyah No. 8 of 2006 which also encourages the development of Islamic banking in Indonesia. The government also provides support for the existence of Islamic banking in Indonesia. This is evidenced by the amendment of Law no. 7 of 1992 to become Law No.10 of 1998 concerning Bank Indonesia. In addition, the government has also issued a new regulation that specifically regulates Islamic banking through Law No.21 of 2008.

In the increasingly rapid development of Islamic banking, at the end of 2008, the national banking industry was faced with a global crisis that occurred in various parts of the world, including in Indonesia. As a result, among others, in October 2008 there were three large state-owned banks requesting liquidity assistance, each amounting to Rp 5 trillion. The occurrence of the global economic crisis in 2008 was caused by the existence of a very expansive credit-giving mechanism by various financial institutions in the United States called Subprime Mortgage. In this mechanism, many borrowers experience bad credit due to high interest rates set by the US central bank, causing financial institutions and deposit insurance to suffer losses. This situation has led to a loss of public trust in financial institutions and financial markets. The attachment of the financial system to global financial markets in turn had an impact on the crisis on the world economy.

The global economic crisis has resulted in various global financial institutions experiencing bankruptcy. Companies in the United States that have experienced bankruptcy due to the global crisis include Bear Stearns, Lehman Brothers, Fannie Mae and Freddie Mac, and AIG. In addition, the global crisis also resulted in losses on global scale banks, especially in the United States and Europe. These banks, among others, Merrill Lynch Company recorded a loss of USD 52.2 billion, Citigroup USD 55.1 billion, UBS AG USD 44.2 billion, HSBC USD 27.4 billion.

The condition of bankruptcy and losses, of course, has had quite a dire impact on the banking industry throughout the world, including the Islamic banking industry in Indonesia. The condition of the financial crisis in the economy is a condition that keeps recurring at any given time. Finding economic systems and mechanisms that are able to withstand this crisis is an important task that must continue to be done.

In general, the recognition that the Islamic financial system is more stable in times of financial crisis has been widely mentioned, the Islamic Bank Financial Institution as a part of the Financial system tends to not even be affected by the financial crisis. Likewise, non-bank financial institutions, such as Islamic insurance, were not affected by the global financial crisis, with evidence that the demand for sharia insurance tends not to change when the financial crisis occurs. In the capital market, the global financial crisis has had a negative effect on the return of stock and bond assets, however, the income of Islamic stocks and bonds has a smaller effect than conventional stocks and bonds.

Sharia banking is also required to face various challenges, which are increasingly complex. As has been explained, the age of Islamic banking in Indonesia is still relatively young, like a teenager who is still looking for an identity. The challenges it faces are not easy or easy.

Prior to the spread of the corona virus in Indonesia, Islamic banking was expected to continue to record double-digit growth records. However, currently Islamic banks must start revising their growth targets due to the impact of the spread of Covid-19. Sharia banking is also expected to be able to provide the best solutions or strategies for its customers, such as restructuring, adding to the financing period, or providing a grace period of 3-6 months. So that customers affected by this virus can feel the presence of this Sharia-compliant bank as a solution to the economic crisis.

## **RESEARCH METHOD**

In this research, the writer used normative legal research method with qualitative descriptive research type. In normative legal research, library material is a basic material which in research is generally called secondary legal material, which consists of primary legal material which is authoritative legal material which means that it has authority such as laws and other regulations, then legal materials that are helpful or supporting primary legal materials that strengthen the explanation in them such as books, theses or journals, then tertiary legal materials as guidance or explanations for primary and secondary legal materials such as legal dictionaries.

## **RESULTS & DISCUSSION**

### ***A. Syariah Method That Used Facing Economic Crisis***

The economic crisis can be reviewed from several aspects, including the exchange rate crisis (currency crisis) whose indicators are devaluation of the domestic currency and changes in policy from a fixed exchange rate system to a flexible / floating exchange rate system. According to Krugman, 1979 and Flood & Garber, 1984 there are 3 (three) crisis models based on the experiences of several countries that have experienced economic crises, namely: First Generation Model, Second Generation Model, and Third Generation Model.

As for what is meant by the First Generation Model (FGM) or exogenous policy model, this crisis model focuses more on inconsistencies in fiscal, monetary and exchange rate policies. The main cause of the crisis was the attack of speculators on the exchange rate of a country which forced the country to change the exchange rate of its currency. There are several factors that form the basis of the analysis of this FGM model, namely full employment, single tradable goods, small open economy, exogeneous output, PPP.

Apart from the above factors, there are several assumptions in the perfect foresight condition by having 3 (three) types of assets, such as: domestic money, domestic bonds and foreign bonds. As well as the assumption that there is a monument base, fixed exchange, domestic credit to increase at a steady rate to finance the government deficit. Empirically, the First Generation Model (FGM) has occurred in several Latin American countries in the period 1970 - 1980s which was marked by an increase in the state budget deficit, depletion of foreign exchange reserves, high inflation rate and the occurrence of overvalued from the domestic currency exchange rate. Second Generation Model (SGM) or endogeneous policy model, often called self fulfilling process. There is a basic assumption in the implementation of SGM, namely that members of the ERM (Exchange Rate Mechanism) want to maintain the existing exchange rate, because it is expected to provide benefits such as: low and stable inflation rate, to boost domestic production, the benefits of devaluation policy are considered higher the more investors who think that the currency should be devalued.

Third Generation Model (TGM) or also known as the Asian Crisis. The Asian crisis started in Thailand, then affected Indonesia, Malaysia, South Korea and the Philippines. Third Generation Model (TGM) assumes the role of moral hazard in the form of an implicit government guarantee that is willing to bail out private companies and banks that are in trouble and guarantee investors' future revenue and balance sheet effects. The impact was excessive borrowing and lending. Even though the government deficit figure was not too high prior to the crisis, foreign creditors refused to refinance their debt, forcing the government to help and guarantee outstanding foreign debt. In addition, expectations of future inflation triggered a speculative attack against the domestic currency, which was generally fixed.

The development of the Islamic financial sector during the last few decades has prompted researchers to confirm the theory and results of previous studies, many questions have arisen that are aimed at the extent to which the rapidly developing Islamic financial system is able to withstand the recurring financial crisis. Some researchers empirically strengthen the argument that the Islamic Financial System is good in terms of the Financial Market, Intermediation institutions are very good in facing financial crises.

When the Conventional Capital Market got a big effect from the financial crisis, the Islamic capital market which is interpreted from the income of Islamic stocks and bonds tends to be less affected than the conventional capital market. During the crisis, the amount of demand for Islamic insurance institutions is not significantly affected, even financial activities that are directly related to financial transaction volatility, such as the saving rate, are said to have no relationship with Islamic insurance, which is more influential for Islamic insurance institutions is a substantial indicator such as education ( education), although differences in places and objects of research also have an effect where differences in country characteristics such as Middle East and ASEAN countries will produce different estimation results, this does not change the general conclusion that Islamic financial institutions are more resilient in facing financial crises.

Based on the analysis of banking data from 2006 to 2012 in seven countries, it was found that Islamic banks were not affected by the 2007 financial crisis, even in an expansive economic condition, the Islamic financial system could be a solution for conventional economies, because when the crisis came based on the findings of this study the profit from Islamic Bank continues to increase.

Conventional Finance theory model with Islamic finance, two models developed both Growth model (GM) and Inflation model (IM) show that the Islamic financial system is comparatively better than conventional, and from the upstream side the main cause of the biggest crisis is both in GM and IM is Riba or interest. Meanwhile, in the upstream sector, the Profit and Loss Sharing (PLS) offered by Islamic finance is a solution to financial system instability. However, in other empirical studies found different results.

Implementing sharia principles not only brings blessings but more than that, implementing shariah principles will bring opportunities to improve abnormal conditions (monetary crisis). That is what is shown by the banks operating in sharia. At a time when national banking was plagued by negative spread. Losses due to deposit interest are higher than credit interest of banks that apply the profit sharing principle without burden.(Danastri Sisherdianti 2009)

At the beginning of the mid-1997 crisis, the conventional banks collapsed. Indonesian Mu'amalat Bank, the only Islamic bank in Indonesia at that time, remained fresh. At that time, Bank Indonesia implemented a tight money policy by setting deposit interest rates to reach or inflation to reach 70% a year (Habibie 2006). By increasing interest rates to that high, public funds will be sucked into the banking system.

In this way, they hope that people will not buy US dollars which is pressing the rupiah. On the other hand, this policy is a heavy burden that must be borne by the (conventional) banking world. Many of these banks were suffocated by high interest rates. They have to pay interest on public savings at high interest rates, while banks cannot withdraw credit interest of that amount from customers. Besides, conventional banks are faced with bad credit (non-performing loans) given to debtors.(Setiawan 2007)

The bank owners who use cheap public funds to empower their own group businesses should be the most responsible. However, as has been witnessed, many obligations that should have been in the private domain have turned into public obligations. The government - using public funds - became like a hero to recapitulate the banks. Not only that, their non-performing loans (NPL) were also withdrawn by the government and then transferred to the Indonesian Bank Restructuring Agency (BPPN) (Indonesia 1998). Their books became 'pure white', as if there were no bad credit stains anymore.

It turns out that the business that has swallowed up trillions of rupiah in people's money has not really solved the problem. In addition to the intermediation function - the main function of banks as a driving force for the real sector - is still small, they have turned Bank Indonesia into cash cows. Instead of being rolled out trillions of rupiah for the real sector, they are tied to Bank Indonesia Certificates (SBI). Without breaking a sweat, the banks reported being able to generate profits that were nothing but a 'fixed contribution' of the SBI interest they received. Time went on, five years after the recapitulation, it turned

out that the banks were still 'staggering' and not yet upright clean. This time they were in the shadow of the negative spread virus threat. If conventional banks do not also find negative spread virus-fighting vaccines, Islamic banking is relatively immune and even untouched. *Bank Muamalah Indonesia* (BMI) can stand upright even though the storm of monetary crisis hit the world economy (Septianawati 2015) which was then compiled by *Bank Syari'ah Mandiri* which was not affected by negative spread because it was based on profit sharing instead of using interest instruments.

Although Islamic banks were not affected by the negative spread virus, this did not “help” the face of national banking. Because the contribution of Islamic banking is still very small. For example, in December 2002, the share of Islamic banking to national banking was only 0.34% or Rp3.67 trillion. Meanwhile, third party funds (DPK) that have been collected by Islamic banks are only around IDR 2.5 trillion or 0.31% of the total DPK of national banks.(Indonesia n.d.)

One thing to be proud of is that sharia has performed the banking intermediary function very well. This can be seen from the ratio of financing to third funds (FDR) that was collected reaching 103.6%. Compare this with the national banking system, where the ratio between credit disbursement and public funds stored (LDR) is only 73.9%. Not to mention when viewed from non-performing loans. In that period, the NPL of Islamic banks reached 3.18%, while for conventional banks, many of which previously had bad credit that had been transferred to IBRA, were still for conventional banks, where previously many of their bad loans had been transferred to IBRA, they still booked NPLs of up to 10.8%.

The capital owned by Islamic banking is less than 5% of the accumulated capital of conventional banking. In fact, capital is not everything. The problems faced by Islamic banking today are similar to those of conventional banks in channeling credit. The difference is, the role of Islamic banking intermediation is more prominent than that of conventional bank counterparts. "It is like we have



excess water, but it is difficult to find promising rice fields to water." Banking after winning the sharia award for the practitioner category, is like a supplier. Its main role is how to provide funds to be distributed to those in need, namely the productive sector. This fund acts as the demand.

The difficulty in finding promising demand has made banks very careful in channeling financing.(Bisri 2014a) He argued, the economic condition had not fully recovered. That means, there was a large risk of bad credit. Not to mention the decline in the capital adequacy ratio (CAR) if the financing became bad. It is easy to understand if conventional banks prefer to park their funds in SBI rather than channel them to the productive sector because in addition to providing a decent interest, SBI is also guaranteed to be safer. If this trend is maintained, the banking sector will actually shift from being a supplier to a demand, depending on Indonesia Bank.(Bisri 2014b)

Conventional Capital Market got a big effect from the financial crisis, the Islamic capital market which is interpreted from the income of shares and Islamic bonds tends to be less affected than the conventional capital market. During the crisis, the amount of demand for Islamic insurance institutions is not significantly affected, even financial activities that are directly related to financial transaction volatility, such as the saving rate, are said to have no relationship with Islamic insurance, which is more influential for Islamic insurance institutions is a substantial indicator such as education ( education), although differences in places and objects of research also have an effect where differences in country characteristics such as Middle East and ASEAN countries will produce different estimation results, this does not change the general conclusion that Islamic financial institutions are more resilient in facing financial crises.

The Islamic Financial System, which is increasingly developing, is fundamentally and technically able to maintain its stability in the face of financial crises. Based on the development of the theory of financial crises, Minsky (1978, 1989, 1992) developed the theory of financial instability of Capitalism while on the other hand, Islam as a basis for building an Islamic financial system has its own hypothesis that fundamentally and the nature of the Islamic financial system

is a stable system. because Islam is different and cannot be defined by other economic systems such as capitalism and socialism, fundamentally the two financial systems will differ in response to crisis conditions.

Economic stability which is usually standardized with macro indicators in the economy, such as production output and inflation, is indeed different from financial stability which is identified with the condition of the financial system and the resilience of the system in overcoming shocks both from within and outside the system and the extent of the effects of these shocks. affect all related systems, but these two things cannot be separated and affect each other.

The Islamic financial system is a system that is very much tied to the real economy. Furthermore, the Islamic financial system which prohibits interest-based debt (*riba*) and encourages a risk sharing system encourages a system that forms a direct relationship between the real sector and the financial sector. As a result, the Islamic financial system produces a system that creates a 'material' aspect that links direct financing to the underlying asset so that financing activities are clear and the real sector is clearly identified and able to withstand severe financial crisis conditions. The year 2008, which is considered by some economists to be the year with the most severe financial crisis in the history of the crisis, was caused by the derivative market that was too far from the real economic aspect also proved to be able to handle the Islamic financial sector well.

Control of strict behavioral deviations in Islamic financial activities is also one of the reasons Islamic finance is able to survive in crisis conditions, the prohibition of things that violate sharia, such as *Riba*, *Maysir*, *Gharar* and the emphasis on Islamic ethics in consumption, production and distribution activities is wrong. one control in dealing with behavior problems that triggered the financial crisis. In contract activity, Islam regulates in great detail every transaction basis carried out, with various transaction bases such as buying and selling (*Bay'*), leasing (*Ijarah*) and goodness (*Tabarru'*) so the behavior of transactions will be directed according to character from the basis of the contract carried out, besides that there will be a transfer of risk between one contract with another. It is different from the conventional financial system which makes debt (*Debt*) the basis of all transactions, leading to excessive debt which has become

one of the triggers for the financial crisis. If in Conventional Economics with the Laissez faire principle freeing actors and submitting economic balance including to financial markets to free market mechanisms so that there is no control over market behavior, it is different from Islam which places the role of government as control of market behavior but does not interfere with market mechanisms so that The technical reasons that were driven by moral and behavioral deviations were mentioned by researchers as one of the root causes of the financial crisis being minimized.

Thus in general, Islam has a stable nature from the basis of its system, is tied to the real economic system, applies control over behavior that can trigger crises and encourages the government to control the deviant behavior of market players.

The causes of the financial crisis were at least triggered by three major parts, namely aspects of behavior (Behavior), Politics (Politics) and Economy (Economy). In the aspect of behavior, speculative actions, expectations, criminal acts such as fraud can be overcome by strengthening control over these behaviors, deep understanding and strengthening Islamic economic values and ethics regarding deviant behavior such as gambling, speculation, transgressions and fraud are the best solutions. in dealing with it.

In the political aspect, it is important to understand the two parties that have the most role in financial regulation and have a role to control conditions that affect the financial system, namely the Government and the Central Bank. Understanding their roles and duties, strengthening regulations regarding transaction rules in Islamic finance and maximizing the role of regulators that establish regulations (regulator agencies) in order to be able to influence the behavior of financial transaction actors in the market are also matters that must be considered. In the case of Indonesia, support for the institutions that strengthen and support the regulator is also important, such as the role of the National Sharia Finance Committee (KNKS), the National Sharia Council of the Indonesian Ulama Council (DSN-MUI).

In the economic aspect, strengthening the prohibition of usury, increasing and supporting the real economic sector and maximizing the role of Islamic social finance institutions (Islamic Social Finance) are also steps in strengthening the Islamic financial system in the face of every crisis that comes.

The Financial Crisis that occurred because it was triggered by the cause of the crisis due to deviant behavior in financial activities based on the paradigm of Islamic financial stability can be resolved and prevented by implementing behavior control solutions through strict implementation of regulations by the Government and regulators and with serious supervision. On the other hand, crisis triggers from the political aspect can be overcome and prevented by strengthening the politics of Islamic finance both in terms of rules (regulations), authorized institutions (Government and Central banks) and strategic institutions that play a vital role in the development of Islamic finance. Meanwhile, the financial crisis that was caused due to economic mechanisms and due to the weaknesses of the Conventional Economy can be resolved and prevented by the application of basic mechanisms in Islamic Economics, such as the prohibition of usury, transfer of transaction risks based on various contracts in Islamic Economics, production and consumption based on ethics. Islamic economics and strengthening of the Islamic social financial system of Zakat, Infaq Shadaqah and Endowments as economic instruments.

#### ***B. The Beneficial Using Shariah Method***

Conventional Banking. The main activity of a bank or conventional bank operational system according to Law Number 10 of 1998 is to carry out conventional business activities which in its activities provide services in payment traffic. Martono (2002) explains the conventional principles used by conventional banks using two methods, namely: first, setting interest as a price, both for savings products such as savings, time deposits, and loan products (credit) which are given based on a certain interest rate. Second, for other bank services, the bank uses or applies various fees in a certain nominal or percentage. This fee setting system is called fee based. In conventional banks, the interest of the owner of funds (depositors) is to obtain a reward in the form of a high deposit interest, while the interests of shareholders include obtaining the optimal spread between the deposit

and loan interest rates (optimizing the interest difference). On the other hand, the interest of the user of funds (debtor) is to obtain a low interest rate (low cost). Thus against the three interests of the three parties an antagonism occurs which is difficult to harmonize. In this case the conventional bank functions as an intermediary institution only. There is no strong emotional bond between shareholders, bank managers and customers because each party has conflicting desires. In conventional banks, the interest system is carried out by: first, the determination of the interest rate is made at the time of the contract with the guidelines that it must always be profitable for the bank. Second, the percentage is based on the amount of money (capital) lent. The determination of the interest rate is made at the time of the contract with the guidelines that it must always be profitable for the bank. Third, the amount of interest payments is not binding even though the amount of profit is doubled when the economy is good. Fourth, the existence of flowers is questionable as halal by all religions, including Islam. Fifth, the existence of flowers is questionable as halal by all religions, including Islam. Sixth, fixed interest payments as promised without consideration of profit or loss on projects carried out by the customer. There are many products of raising and channeling funds that technically and financially can be developed by an Islamic financial institution. This is possible because the sharia system provides sufficient space for it.

In practice, most Islamic financial institutions still limit themselves to only implementing a few products that are considered safe and profitable. In mobilizing funds, for example, institutions prefer mudaraba profit sharing products with the consideration that they are not too risky because of their capacity as mudharib and are relatively easy to implement. But unfortunately, if you have to distribute it back to the community in the form of providing financing facilities to customers, the Islamic financial institutions prioritize murabahah products on the grounds that these products can provide more guarantees of obtaining sufficient profits based on the agreement of both parties when the agreement is signed. It's just that in practice, this situation often goes by denying the principles of murabaha, such as objects whose existence or measurements are not clear.

In fact, as explained above, there are many products that can be technically and financially developed by Islamic financial institutions to run their business, such as wadi'ah fund collection, collection and distribution of mudharabah, musyarakah and murabahah funds. As for other points, such as bai 'salam, ijarah, ijarah wa itqina, hiwalah, sarf, qard and so on, these Islamic-based financial institutions are not used to implementing them.

**a) Funding**

Collecting funds is collecting or getting money by buying from the wider community in the form of demand deposits, savings and time deposits. This is done by banks with various strategies so that people are interested in investing the funds they own. Types of savings that can be chosen by the public are current accounts, savings, certificates of deposit and time deposits, each of which has its own advantages. The bank's strategy in raising funds is to provide stimulation in the form of attractive and profitable remuneration. The remuneration can be in the form of flowers, souvenirs, gifts or other remuneration services. The more diverse and profitable the remuneration provided will increase people's interest in saving their money.

In raising funds from the public, Islamic financial institutions can offer wadiah services, which in terms of language means a deposit. The wadiah contract is a part of the tabarru contract', which is a contract that contains virtue because it contains elements of helping people among humans in their social environment. The basic principle of wadiah states that a goods keeper is obliged to pay all costs incurred by the entrusted person, automatically, for the purpose of maintaining the entrusted goods, in addition to service fees in an amount that is in accordance with the degree of appropriateness or based on the initial agreement between the two parties when the wadiah agreement is made.

Likewise, in the case of wadiah funds directing, in principle the institution may collect administrative fees from customers because this is their right and the customer must fulfill it in return for services provided to maintain the security of assets (funds) deposited by customers with him. As for the amount

of administrative fee, the amount is determined based on reasonable parameters in the banking world.

In the context of mobilizing these funds, with the permission of the depositor (customer), the institution can manage it for commercial purposes so that if profit is obtained the institution can provide a grant (bonus) whose amount cannot be determined with certainty in advance by calculating rupiah figures or a presentation of the value. wadiah fund principal. Conversely, if the loss is obtained, the institution is responsible for the loss so that this kind of wadiah is commonly known in fiqh terms as *wadiah yad addhamanah* (deposit with the risk of compensation).

In practice, some managers of Islamic financial institutions refer to the wadiah bonus as a profit sharing term whose amount is determined in advance on the basis of calculating the presentation of rupiah figures and by comparing the amount of savings interest provided by conventional banks in attracting prospective customers. This is done because the managers find it difficult when they have to properly explain the wadiah principle in sharia teachings. Meanwhile, at the same time, customers' knowledge of the relationship between themselves is still very low. In addition, evidence was also found that most of the managers of Islamic financial institutions did the same because they lacked confidence and considered the patterns offered by Islamic financial institutions to be no more effective than those of conventional banks.

#### **b) Lending**

Distribution of funds is channeling back funds obtained through current accounts, savings and deposits to the public in the form of loans (credit) or financing at Islamic banks. In providing credit or financing, apart from being subject to bank interest or profit sharing at Islamic banks, it also charges loan services to the credit recipient (debtor) in the form of administrative fees, as well as fees and commissions. As for the distribution of funds, banks act as owners of funds and customers as managers. The banking sector gives full confidence to customers to take advantage of this proceeds-sharing financing facility as capital to manage certain halal and feasible businesses. Since the

basic foundation is pure trust from the owner of the capital, the banking sector is required to be extra careful and selective with regard to financing submitted by customers, more than should be done. This is important to point out because only a few mistakes are made, the consequences are fatal for the bank considering that mudaraba products are always related to the principle of sharing profit and loss.

Likewise, the distribution of funds. Banks find it difficult to apply *muyarakah* products consequently, even though in fact the accompanying risk factors are relatively lighter than *mudharabah* products because the customer has provided part of his capital for business management purposes. From the facts in the field, it can be seen that several Islamic banks implement *musyarakah* products, first the bank officer offers a fixed monthly profit share to prospective customers for a certain period of time, then if the offer is agreed upon, the bank will realize the *musharaka* financing contract to the customer. Another fact also explains to us, there are banks whose *Musyarakah* product applications are carried out by submitting requirements so that businesses managed by customers do not suffer losses. If then the reality speaks differently, in terms of unexpected losses, the bank only demands to return the principal of the financing provided. It is often said by people that Islamic banks are willing to share the results but do not want to share the losses.

#### **c) Services**

Services are a support or complement to banking activities provided to support the smooth running of bank activities in raising funds, both directly related to deposits and credit or financing, or indirectly. Banking services include: telephone, electricity, water payment services; payment services such as salaries, pensions or gifts; money transfer service (transfer); billing services (collection); clearing services (clearing); foreign currency (forex) sales services; document storage services (safe deposit box); travel check services (travelers check); credit card services (credit card); letter of credit (L / C) services; and other bank services.

#### **d) Syariah banking**



Islamic banking or Islamic banking is a banking system based on Islamic sharia principles. Islamic banking applies profit and risk sharing between fund providers (investors) and users of funds (entrepreneurs). Similar to conventional banking, the maximum level of profit in accordance with sharia values must also be considered so that the parties involved can enjoy these benefits. Likewise, if there is a loss, the parties involved also bear it. In addition, Islamic banking manages zakat, avoids transactions related to goods that are haram and contain elements of maisir, gharar and usury.

In conventional banking, banks use savings to lend to debtors, both individuals and entrepreneurs. Profits are obtained from the difference between the interest charged to debtors and the interest paid to savers. In Islamic banking interest is prohibited, then the profit sharing system is used. In this system the relationship between the lender, the borrower and the intermediary is a relationship based on trust and partnership.

Islamic banking has the same objectives as conventional banking, namely so that banking institutions can generate profits by lending capital, saving funds, financing business activities, or other suitable activities. The principles of Islamic law prohibit the following elements in such banking transactions:

- 1) commerce of illicit goods,
- 2) interest,
- 3) deliberate gambling and speculation) ambiguity and manipulateness.

The comparison between Islamic banks and conventional banks is as follows:

<b>Bank Syariah</b>	<b>Conventional Bank</b>
Make only investments that are lawful according to Islamic law	Investing both halal or haram according to Islam
Using the principles of profit sharing, buying and selling, and renting	Using the interest rate device

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<p>Profit oriented and Falah (the happiness of the afterlife according to Islamic teachings</p>	<p>Profit Oriented</p>
<p>Relationships with customers in the form of partnerships</p>	<p>The collection and distribution of funds was not regulated by a god of this kind</p>
<p>The collection and distribution of funds is in accordance with the fatwa of the Sharia Supervisory Board</p>	<p>Relationships with customers in the form of creditors-debtors</p>

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Some Scholars argues that the principles of Islamic banking are aimed at bringing benefit to customers because it promises justice in accordance with sharia in their economic system.

## CONCLUSION

The phenomenon of recurring crises which is predicted to occur again can be overcome by the Islamic Financial System, provided that the strengthening of Islamic finance is carried out on all sides in anticipation of a crisis. Islamic banking is a solution to facing the global economic crisis. The aim of the Indonesian state sharia banking is the realization of a healthy, strong and consistent (*Istiqamah*) with Islamic banking system towards the principles of sharia in the framework of justice, benefit and balance, in order to achieve a prosperous society materially and spiritually.

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