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ACCELERATING GROWTH THROUGH THE IMPLEMENTA-TION OF ISLAMIC BANKING GOVERNANCE

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Abstract

Indonesian sharia banking industry's growth chart shows a rising, albeit decelerating. Data published by the FSA indicates that Islamic banking accounted for 4.81% of market share to achieve the growth assets 11.97% as of June 2016. At the global level, the Islamic financial services sector including banking, control of 3% and together with Qatar, Saudi Arabia, Malaysia, United Arab Emirates and Turkey became the driving force of Islamic finance in the future. Based on the data above, efforts are needed to accelerate the growth of Islamic banking in both the national and global level to take advantage of opportunities that are still open. One of the strategic issues faced and the impact on the growth of national banks is understanding and awareness is still low, causing public misperception among others, relating to the terms, covenants and transparency of the product; as well as costly. The problem will be discussed is how the implementation of sharia governance can be used as a means to increase public confidence in the Islamic banking and ultimately encourage the growth of Islamic banking. Regulation on governance in Islamic banking mandated in Article 34 of Law No: 21 of 2008 concerning Islamic Banking which requires Islamic banks and Sharia implement good governance which include the principles of transparency, accountability, responsibility, professional and fairness in conducting its business activities with regard sharia principles in the form of a ban on business activities that contain elements of *usury, maysir, gharar, zhulm, tabdzir, risywah* and *maksiyat*. Besides Islamic bank based spiritual footing, which is committed to conducting business based on principles of halal and Tayib, so the function of Islamic banking can as an intermediary that is capable of pros-pering the people and sustainable. Therefore, Sharia Supervisory Board is obliged to ensure that banking activities comply with sharia and sharia governance principles.

Keywords: sharia banking governance, sharia, growth spurt.

INTRODUCTION

Why Islamic banking growth in Indonesia is running slow, when compared with the market potential is enormous, considering that Indonesia is a country with a majority Muslim population is the largest? Currently, the new Islamic banking market share reached 4.81% or less than 5%, with total assets of RP. 306.23 trillion as of June, 2016. [1]But on the other hand, an opportunity for Indonesia to become wide open, given the current Indonesia is internationally regarded as a strength and has great potential Islamic finance global, which is one among the 10 largest countries in the field of Islamic finance together Malaysia, Saudi Arabia, Iran, the UAE, Kuwait, Qatar, Bahrain, Turkey and Bangladesh. Recognizing this potential, the government through the BAPPENAS has launched a Master Plan for Islamic Financial Indo-nesia and has incorporated Islamic financial mainstream national strategy that will help the government achieve development goals. The master plan aims to improve the infrastructure and the ability of the Islamic financial system, to overcome the existing gaps, improve institutional performance, creating new opportunities in the international market and positioning domestic and Indonesia as a major player in the Islamic financial world. [2]

It seems that the government and the financial services authority, realizes the need to identify the strategic issues that are a barrier and take anticipatory measures through various policies. One of the main obstacles to the growth of the Islamic finance industry, including banks is the lack of transparency and good governance. Not optimal transparency and governance is seen in some of the strategic issues that are impediments to the development of Islamic banking Indonesia, among other products that are not varied and the service does not meet the public's expectations; the quantity and quality of human resources are not adequate, understanding and public awareness is still low, causing public misperception among others, relating to the terms, covenants and transparency of the product; as well as costly, as well as regulation and supervision are not yet optimal. The whole issue should be addressed with the implementation of good governance in Islamic banking. Governance There-

[1] See the Department of Islamic Banking, Islamic Banking Indonesia Roadmap 2015-2019, FSA, 2015, p. 3.

[2] Bappenas, Indonesian Islamic Financial Architecture Masterplan, Moulds Second, in July 2016, p. 3

fore, this paper aims to assess the urgency of implementing corporate governance based on Islamic principles (Sharia good governance) in order to increase public confidence in Islamic banking, which is expected to accelerate the growth of Islamic banking in Indonesia.

METHODS

This study is a descriptive analysis, which create a picture of systematic, factual and accurate information on the facts [3] therefore this research nature study and describe the various issues aspects of the law and facts, as well as other symptoms related to the development of banking services and then analyze it in order to obtain a full picture and thorough about the legal issues relating to implementation of the Good Corporate Governance principles conducted by Indonesian Sharia banks. The method used is a normative juridical approach. The approach used, among others, use the primary legal materials, namely legislation, secondary legal materials such as journals and the results of previous research and tertiary legal materials. [4] This normative juridical approach can use the way:[5] exciting research principle of law, legal history research and the synchronization of legislation

LITERATURE REVIEW

Urgency of Sharia Governance in the Islamic banking industry.

Islamic Finance which in this case includes the Islamic banking industry, which is a banking activity that is consistent with the principles of Islamic law (sharia) and guided by Islamic economics. Basically in Islamic law has been described how the importance of good governance in Islamic financial activities. This was stated in a working group organized by the Islamic Financial Services Board (IFSB).[6] In the

[3] Sumadi, Methods, CV Rajawali, Jakarta, 1988, p. 19.

[4] Johnny Ibrahim, Theory & Methodology Normative Legal Research, Bayumedia, Malang, 2013, p. 295

[5] Sri Mamudji, Methods And Legal Writing, Jakarta, Publisher Agency Law Faculty, Uni-versity of Indonesia, 2005, p. 9-11

[6] Islamic Financial Services Board (IFSB), is an international standard setting body of reg-ulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services (IFS) industry.

meeting explained that the concept of Vicegerency is accountable to God as well as to others. Ethics of the Institution of Islamic Financial Services (IIFS) are set out not only in contracts and residual contracts but Ultimately accountability to God. [7] Thereby ethics in Islamic banking activities are not only based on a contract, but IS ALSO subject to the code of conduct set out in the Qur'an, and All These ethics are:

1. Honest fulfillment of all contracts (5: 1)
2. Prohibition against betraying any trust (8: 27)
3. Prohibition against deriving income from Dishonesty cheating or fraud (4:29)
4. Prohibition against bribery to earn an unfair advantage (2: 188)
5. Prohibition against concealing evidence (2: 283), for example to manipulate prices

Corporate governance in Islamic finance Islamic financial institution neces-sitates abiding by a set of rules called the Islamic law or sharia. The sharia governs the bank's operations and transactions in accordance with Islamic principles derived from the Quran and Hadith. However, good corporate governance principles not only Refers to the Qur'an and Hadith, it must be adjusted to the general principles issued by the OECD and BIS.

Having established a board understanding of the nation of corporate governance. To ensure that the specific sector or a national corporate governance framework is consistent with international best practice, the corporate governance frame-work should incorporate the OECD Principles and the BIS guidelines. Here are five elements of the OECD Principles of Good Corporate Governance: [8]

1. Good practices Board
   a. Role and authorities are defined Cleary
   b. Duties and responsibilities of directors understood
   c. Board is well structured
   d. Appropriate composition and mix of skills
   e. Appropriate board procedures in place

[7] Madzlan Mohamad Hussain, *Corporate Governance Of Institutions Offering Islamic Financial Services (IIFS): An insight of the Islamic Financial Services Board's Initiatives, Aman Jordan, February 2005, p. 10*

[8] Jahanara Sajjad Ahmad, *Corporate Governance in Islamic Banks, Hawkamah The Insti-tute for corporate governance. June 2010, p. 3*

   f. Director remuneration in line with best practice with
   g. Board self evaluation and training conducted
2. Control environment and processes
   a. Independent Audit Committee established
   b. Risk management framework / structure present
   c. Internal control procedures in place
   d. Internal audit function in place
   e. Independent external auditor conducts audits
   f. Management information systems established
   g. Compliance function established
3. Disclosure and Transparency
   a. Financial information is Disclosed
   b. Non-financial information is Disclosed
   c. According prepared IFRS Financial
   d. High quality annual report published
   e. Disclosure and investor based Web site in place
4. Shareholder rights
   a. Minority shareholder rights are formalized
   b. Well organized general assembly conducted
   c. Policy on related party transactions in place
   d. Policy on extraordinary transactions in place
   e. Clearly defined and explicit dividend policy
5. Commitment
   a. Board discusses corporate governance issues and has created corporate gov-ernance committee
   b. The company has nominated a champion of corporate governance
   c. Corporate governance improvement plan is in place
   d. Appropriate resources are committed to corporate governance
   e. Policies and procedures have been formalized and distributed to relevant staff
   f. Company has developed corporate governance code or guidelines
   g. Company is publicly Recognized As a corporate governance leader.

Based on the outline of the guidelines issued by the OECD, Islamic finance embeds the basic tenets of corporate governance stressing the three play areas of account-ability, transparency and trustworthiness.[9] In addition, institution offfering Islamic Finance Services (IIFS) also need to pay attention regarding; sharia compliance, ethics and social responsibility (in line with the concept of vicegerency), Interests of Investment Account Holders (IAH) especially unrestricted, Potential Conflict of interest between shareholders and unrestricted IAH especially where the funds are coming led- issues of asset allocation and risk appetite, transparency in financial reporting i.e: calculation of mudharib share (where funds are commingled) profit distribution.

In 2015, meetings were held G20 Finance Ministers and Central Bank Gov-ernor, who suggested a revision of the principles of Good Corporate Governance. The principles were revised basically still retain many of the recommendations from the previous principle which is an essential component of the framework for effec-tive corporate governance. The principles are embodied through recommendations issued G20 / OECD are:

1. Ensuring the basis for an effective governance framework; The chapter em-phasizes the role of corporate governance framework in promoting trans-parent and fair markets, and the efficient allocation of resources. It focus-es on the quality and consistency the different of regulation that influence corporate governance practices and the division of responsibilities between authorities
2. The rights and equitable treatment of shareholders and key ownership func-tions; the chapter indetifies basic shareholder rights, including the right to information and participation through the shareholder meeting in key com-pany decisions.
3. Institutional investors, stock markets and other intermediaries, this chapter which addresses the need for sound economic incentives throughout the in-vestment chain, with a particular focus on institutional investora acting in a fiduciary capacity.

[9] Nasser Saidi, *Corporate Governance in Islamic Finance,* Hawkamah, The Institute for Corporate Governance, p.. 434

4. The role of stakeholders in corporate governance; the principles encourage active co operation between corporation and stakeholders and underline the importance of recognising the rights of stakeholders established by law or through mutual agreement
5. Disclosure and tranparency; the chapter identifies key areas of disclosure, such as the financial and operating results, company objective, major share ownership, remuneration, related party transactions, risk factors, board members, etc.
6. The responsibilities of the board; the chapter provides guidance with respect to key functions of the board of directors, including the review of corporate strategy, selecting and compensating management, overseeing major corpo-rate acquisitions and divestitures and ensuring the integrity of the corpora-tions's accounting and financial systems.

Based on the guidelines mentioned above, then compare with the principles of corporate governance imposed by Bank Indonesia, namely PBI 11/33 / PBI / 2009 on Implementation of Good Corporate Governance for Islamic Banks and Sharia Business Unit've basically just follow the International standards focus trustworthy yet appeared in GCG Indonesia. Trustworthy can be interpreted through the principle of the mandate contained in the destination Islamic principles. Here GCG imposed against Islamic commercial bank in Indonesia must include:

1. Transparency of inclusion in the proposed material and relevant information as well as transparency in the decision making process
2. Accountability, namely clarity of the functions and the implementation of the accountability organ bank that effective management
3. Responsibility, the bank management conformity with the legislation in force and the principles of sound bank management
4. Professional, which has competence, able to act objectively and free from the influence/pressure from any party (independent) and have a strong com-mitment to developing Islamic Bank
5. Fairness, namely justice and equality in fulfilling the rights of stakeholders based on the agreement and the legislation in force.

Furthermore, the implementation of good Corporate Governance in the Islamic banking industry must comply with Islamic principles (sharia compliance) as set within the Islamic banking laws. Thus the business activities in the Islamic banking business activities that do not contain elements:

1. Riba, namely the addition of unlawful income (vanity), among others in the exchange transaction of similar goods which are not the same quality, quan-tity, and delivery time (Fadl), or in a transaction that requires borrowing facilities recipient customers received refund exceeds the principal loans be-cause of the passage of time (nasi'ah)
2. Maysir, ie transactions that are hung to a situation that is uncertain and speculative
3. Gharar, ie transactions whose object is not clear, not owned, not known to exist, or cannot be delivered at the transaction date unless otherwise regu-lated in sharia
4. Haram, which is the object of transactions prohibited under sharia; or
5. Zalim, ie transactions that cause injustice to the other party.

Implementation of Good Corporate Governance in the Islamic banking industry is an effort to protect the interests of stakeholders and improve compliance with legislation and regulations, and ethical values that apply in general. Based system Indonesian law, Islamic principles contained within the Qur'an and the hadith is translated in a Fatwa issued by DSN, which then become a source in the formation of legislation that regulates the activity of Islamic finance in Indonesia.

Some of the fundamental difference between Islamic banking and conventional banking.

Indonesian Islamic banking has gained a strong legal basis by the issuance of Law No: 21 of 2008 concerning Islamic Banking, followed by regulations issued by both the FSA and the Bank Indonesia as the banking authorities. Thus, Indonesia adheres to legal dualism banking, where conventional and Islamic running side by side. One of the strategic issues that become barriers to the growth of Islamic bank-ing is a public misperception of the practice of Islamic banking, which is considered no different from the conventional. In practice, the bank claims to be Islamic banks, but in its implementation does not reflect the mechanism based on Islamic princi-ples. A simple example in practice, for example, in housing finance through contract musyarakah mutanaqisah or murabaha contract, based on the principles of sharia banks should first have a property / asset which is the object of the contract, as long as it cannot be proved difficult to mention that this contract is that housing finance based on Islamic principles, On one occasion, the authors provide training on Islam-ic banking regulations, and the questions that first emerged from participants is “why transact in Islamic banking even more expensive?”. Or “why in Islamic banking transactions, the profit percentage has been set at the beginning? Requires sufficient understanding to be able to give a satisfactory answer and give a sense of how it can happen: Therefore, it required numerous attempts to provide a comprehensive un-derstanding and correct the differences between Islamic banking and conventional, one through an increase in the quantity and quality of human resources competent about Islamic banking, especially to realize the vision of Indonesian sharia banking contributed significantly to growth economic sustainability, equitable development and stability of the financial system as well as highly competitive.[10] Here are some of the basic knowledge needed to understand the Indonesian Islamic banking, which may be invoked in assessing the problem.

1. **National Sharia Board Fatwa as a source of law for the establishment of Is-lamic banking regulations**; under Article 1 paragraph 7 of Law No: 21 of 2008 on Sharia Banking is the Islamic Bank is a bank running their business based on Sharia principles and by type consisting of Islamic Banks (BUS) and Bank Pembiayaan Rakyat Syariah (BPRS). Islamic banks are Islamic banks, which in its activities, providing services in payment traffic; whereas SRB is the Islamic Bank in its activities do not provide services in payment traffic. In addition, the Banking Act recognizes Sharia (UUS) is a unit of the central office Convention-al Commercial Bank serves as the head office of the office or unit conducting business based on sharia principles, namely the principles of Islamic law based on the fatwa issued by an institution that has authority in setting the Fatwa in the field of sharia.[11] Thus, based on the legal system in Indonesia, DSN is a source of

[10]Roadmap Syariah Indonesia 2015-2019, *loc.cit*, hlm. 17.

[11]The institution is authorized to determine Fatwa of National Sharia Council (DSN) of Majelis Ulama Indonesia (MUI).

law in the establishment of Islamic banking regulations, especially for the FSA and in issuing regulations.

2. Prudential banking and sharia principles as a core principle in Islamic banking activities; sharia banking activities are business activities that do not contain elements: 1) riba, namely the addition of revenue unlawfully (vanity), among others, in the exchange transaction of similar goods which are not the same quality, quantity, and delivery time (Fadl), or in a transaction borrowing and lending that requires customers receiving facility to refund received exceed the outstanding principal due to the passage of time (nasi'ah); 2) gambling, which is a transaction that depends to a situation that is uncertain and speculative; 3) gharar, ie transactions whose object is not clear, not owned, not known to exist, or can not be delivered at the time the transactions are made, unless otherwise regulated in sharia; 4) unlawful, namely transaction object is forbidden in Sha-ria; or, 5) unjust, ie transactions that create injustice for others.[12] in addition to the above differences, Islamic banks are also commonly used concept of risk sharing in equity-based transactions, trade and lease, and the distribution of risk itself is equity-based principle. In addition, the activity of Islamic banking is based on goods and services and put the money as a means of payment is not a commodity.
3. The key difference between Islamic banks and conventional banks; understand-ing of a comprehensive Islamic banking can be obtained by looking at the dif-ference Islamic banks with conventional banks practices, which include three levels: conceptual and socio-religious level; business model and framework governing levels; and product implementation models. Without a clear under-standing of all three levels of the above differences, people tend to make a com-mon mistake to assume that there is only a change in name only. Here are the key differences between Islamic banks and conventional:

12 See explanation of Article 2 of the Law of Islamic Banking

At conceptual socio-religious level	
* Islamic Banking (IB) are not money lending but they work as trading /investment houses.	* Conventional interest based banks (CB) are in the business of lending and borrowing money on interest.
* IBs work under socio-religious guidelines that prohibir charging and paying interest and avoid all impermessible transactions like gmabling, speculation, shot seliing and sales of debt and receivables.	* CBs donot work under any sosio-religious restrictions. Interest is the backbone of this system, and short sales, sales of debt and speculative transactions are common.
* IBs do not permit the financing of industries that are prohibited in the shariah or harmful to society (such as arms, alcohol and tobacco manufacturing)	* CBs finance all types of industries, only business deemed llegal by law of the land are not supported
At Business Model And Governing Framework Level	
* The IBs business model is based on trade, thus IBs need to actively participate in trade and production prosesses and activities.	* Generally CB do not involve themselves in trade and business as they act only as money lenders.
* IBs have a strong Shariah governing framework in terms of Shariah Advisors and/or a Shariah Supervisory Board, which approve transactions and product in the light of shariah rulings.	* CBs do not possess such a framework is a key litmus test that refutes the claims of those fail too see the differences between IBs and CBs.
Product Implementation Level	
* Islamic banking product are ussually asset backed and involve the trading of assets, the renting of assets and the participation in the business on a profit and loss basis.	* CBs treat money as commodity and lend it against as its compensation.
* IBs consider a loan non-commercial and exclude it form the domain of commercial transactions. Any loan given by IBs must interest free.	* At CBs almost all financing and deposit side product are loan based.

Source: Eticha Institute, *Handbook of Islamic ….*

Referring to the above differences, it can be seen that the relationship between the bank and the customer in conventional banks is the relationship between creditors and debtors, and profits for both banks and customers rely on the ups and downs of interest, whereas in Islamic banks, the relationship between the bank and the cus-tomer based on the model financing and the nature facility given. Furthermore, the role between the bank and the customer between Islamic banks and conventional banks can be seen in the table below:

	Conventional Bank		**Islamic Bank**	
	Role (Bank-Custom-er)	Compensation	Role (Bank- Custom-er)	Compensation
Deposit	Debtor-creditor	Interest	Mudharib-Rab ul maal	Profit of mud-harabah
Finance		Interest	Seller-Buyer Lessor-Lessee Partners-Agent-Prin-cipal	Price (thaman) Rent Profit Fee

According to the table above, conventional banks obtain compensation only from in-terest, without considering the risks, as a principle in the activities of Islamic banks, which "can be no gain without risk". By understanding the differences between the characteristics of a conventional bank, it can be seen that it is necessary to be able to provide insights into the community, then misperceptions can be minimized and fur-ther public confidence in the Islamic banks will increase. One effort that can be used to increase public confidence in the implementation of sharia is good governance.

Good Governance in Islamic Banking.

Good governance in Islamic banking is different from the governance of conventional banks, because the ultimate goal of the activity of Islamic banks can not be separated from the maqasid sharia, which is the main purpose of which is to be achieved by the sharia, namely "obligation of the Shariah is to provide the well being of all Humankind. Which lies in safeguarding Reviews their faith, Re-views their human self (nafs), Reviews their intellect (aql), Reviews their progeny (nasl) and their wealth (the mall).[13] Therefore, Bank Indonesia issued Bank Indone-

13 Mehmet Asutay, *An Introduction to Islamic Moral Economy*, Durham Islamic Finance

sia Regulation (PBI) No: 11/33 / PBI / 2009 on Implementation of Good Corporate Governance for Islamic Banks and Sharia Business Unit. The background of the publication of this regulation is that the implementation of GCG must meet Islamic principles, and is one of the efforts to protect the interests of stakeholders and im-prove compliance with legislation and regulations, and ethical values that apply in general to the Islamic banking industry.

Governance as part of the Islamic banking system.

Islamic banking as a business entity and part of the financial services sector plays an important role in moving the economy of Indonesia, namely as an agent of development, agent of services and agent of trust.[14] In carrying out the function of a financial intermediary, Sharia Bank in addition to running the confidence (trust), shall carry out its activities with due regard to prudential banking principles set out in Article 2, 23 and 35 and 36 of Law No: 21 of 2008 concerning Islamic Banking as a form of responsibility to fund a third party who was placed in the bank. In addi-tion to applying the precautionary principle, obliged to implement Islamic banking governance and risk management, which includes the principle of knowing your customer and customer protection. Implementation of good governance, consistent and sustainable addition to aiming to protect the interests of stakeholders, as well as improve compliance with the legislation in force, in particular the principles of sharia. Therefore, Bank Indonesia felt the need to issue a Bank Indonesia Regulation (PBI) No: 11/13 / PBI / 2009 on Implementation of Good Corporate Governance for Islamic Banks and Sharia Business Unit, which provides that the implementation of good corporate governance must meet Islamic principles, namely the principles of Islamic law in the field of Islamic banking embodied in the form of National Sharia Board Fatwa (DSN) -Majelis Ulama Indonesia.

Based on this regulation good corporate governance (GCG) is defined as the Bank's governance, which apply the principles of transparency, accountability, responsibility, professional and fairness, in accordance with Islamic principles. Ad-herence to Islamic principles that will be the difference between the scope, urgency,

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Summer School 2013, Durham, UK

14 FSA, Banking-Financial Literacy Higher Education Series, Series 2, Jakarta, 2016, p.6

and the application of governance in Islamic banking Islamic principles will now be visible from the basic principle of Islamic banking operations in which the bank's capital and deposit-sharing or bonus channeled through financing debt financing transactions, lost profit sharing and fee-based financing (ujrah). Additionally, Islam-ic banks have a social function as a container for charity fund and also the lender virtue / bailouts (qard and qardulhasan) unknown in conventional banking.

In terms of interest, sharia principles characterize the characteristic that em-phasizes the welfare of the people and the creation of sustainable growth with a fo-cus on the real sector that create added value. That's why the system of governance in Islamic banking is considered more complex than conventional banks because in addition to paying attention to the regulation in general, must also comply with Islamic principles derived from Islamic law to be able to compete in the market.[15] As part of the Islamic banking system, governance of Islamic banking in Indonesia will be greatly influenced by the Indonesian legal system that is more influenced by the system of civil law, where the legislation a major source, so that Islamic principles contained in the DSN must first be translated into the positive law, in particular the regulations issued by the financial services authority both the FSA and Bank Indo-nesia. Cooperation to two authorities is necessary to avoid duplication and overlap of Islamic banking arrangements in particular.[16]

Definition of good governance in Islamic banking regulations.

Financial Services Authority Indonesia actively being part of various forums and institutional cooperation that sets the standard of governance for the financial services sector, such as the G-20 in collaboration with the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS) and the Islamic Fi-nancial Services Board (IFSB). Therefore regulations governing good governance in Islamic banking regulation in line with the scope of good governance internation-ally, including the application of the principle of comply or explain entered in In-donesia Corporate Governance roadmap that can be used as a general guideline for

[15] Frederick V. Perry, *The Corporate Governance of Islamic Banks : A Better Way of Do-ing Business?*, Michigan State Journal of International Law, Vol.19:2,2011,p. 266

[16] See FSA, Indonesian Banking Booklet 2016, Issue 3, March 2016, p.5.

the entire corporation in Indonesia.[17] In particular, Article 34 of the Law obliges the Islamic banking Islamic banks and Islamic business units to implement good gov-ernance, which include the principles of transparency, accountability, responsibility, professional and fairness in conducting its business activities. Therefore, Islamic banks are required to formulate internal procedures regarding the implementation of these principles. In addition, to ensure that the governance of the bank complies with Islamic principles, Islamic banks are required to establish the Shariah Supervi-sory Board.

After the authority for regulation and supervision of banking turn to the FSA, the obligation of good governance in Islamic banks, implicitly regulated in FSA rules, among others in POJK No: 8 / POJK.03 / 2014 Assessment of Commercial Banks and Sharia Unit Sharia. Article 6 Paragraph (1) POJK regulates the coverage of health assessment to determine the level of Islamic banks, one of which is good corporate governance. Assessment of the factors of good corporate governance is an assessment of the management of Islamic banks on the implementation of the principles of good corporate governance with regard to principles of sharia.

Urgency of good governance for Islamic banking activities

In the context of Indonesia, as well as other developing countries, in the beginning of good governance in Indonesia is considered as a burden, especially to change the culture of the company in order to meet the principles of transparency and accountability. In line with its development, it was realized that good gover-nance will only protect the interests of all stakeholders. Effective governance will strengthen and spur the growth of the company.[18] Currently, the implementation of good governance has been perceived as necessary to increase the company's value. Indonesia has had National Committee on Governance, which publishes general guidelines for good corporate governance including business banking and sharia. Through the implementation of all pillars of good corporate governance, the Islamic banking industry is expected to create a healthy and resilient and able to protect the interests of all stakeholders. In addition, the implementation of good governance in Islamic banking has a specific purpose that is a way to boost confidence and provide

[17] See FSA, Indonesia Corporate Roadmap, Jakarta, January, 2014.

[18] See Umer Chapra and Habib Ahmed, Corporate Governance in the Islamic Financial Institutions, Islamic Development Bank-IRTI, 2002, p. 8

legal certainty for stakeholders that the bank's operations and business activities of the bank is not contrary to Islamic principles. In the end, the implementation of good governance in Islamic banks will facilitate economic mechanisms in the real sector through the activities of business activities based investment, purchase, lease and contract another, and the success of the world akhrat very concerned about the cleanliness of sources, the truth about the process and benefits of the results.[19]

One of the strategic issues faced and the impact on the growth of Islamic banking is the understanding and awareness is still low, causing a public misper-ception among others the hassle of contract and terms, as well as costly. Besides the quantity and quality of human resources who are able to understand and implement the principles of sharia under conventional banks. To two strategic issues, in addition to other issues, of course have an impact on confidence and expectations of society towards Islamic banking. Therefore, the implementation of good governance based on Islamic principles of efficient believed to increase public confidence and acceler-ate the growth of Islamic banking. The National Committee on Governance (NCG) has published two guidelines are complementary and can be used as a reference to Islamic banking, the general guidelines of banking corporate governance Indonesia in 2013 and the general guidelines for good governance sharia business in 2011. Ac-cording to these guidelines in general two Islamic banking shall apply the principles of good corporate governance in every aspect of the business to achieve business continuity by taking into account bank shareholders, customers and stakeholders. In addition, Islamic banking as part of Islamic finance is based on the basic foundation of spiritual and basic operational footing. Spiritually, Islamic banking committed to conducting business based on two principles, namely lawful and Tayib. Principles of Islamic banks prohibit lawful conduct business activities that contain elements of usury, maysir, gharar, zhulm, tabdzir, risywah and maksiyat. While the basic princi-ples Tayib covers two aspects, namely Ihsan (providing the best) and tawazun (bal-anced between the spiritual and the material, exploration and conservation, financial sector and the real sector, risk and profit sharing).[20] These basic principles followed by the banks' commitment to have among other things: vision and mission state-ment clear and realistic; company values describing morals good bank in conducting

[19]FSA, the Financial Services Industry Sharia-Series Higher Education Financial Literacy, Jakarta, 2016, p.15.

[20]See KNKG Code of Good Governance of Islamic Business, 2011.

business; guidelines working procedures of commissioners and directors; business ethics and Code of Conduct companies which formulation is done by involving the organ of the company; play an active role in conserving natural resources and the environment; have a company policy or collective agreements to guarantee the security of rights and obligations of the parties as well as whistle blowing system for memunhgkinkan obtaining reports and complaints as well as suggestions and criticism from employees and stakeholders. Furthermore, the application of governance in Islamic banking has a specific structure that includes the company's structure and policy organ bank in the implementation of the business and aspects that support the company organs are internal control, risk management, corporate secretary and compliance with applicable regulations.[21]

ANALYSIS AND DISCUSSION

The implementation of Shariah governance as an effort to increase the growth of Islamic banking

The growth of Islamic banking can not be separated from its success its function as an agent of services and agent of trust. Maintain and enhance public confidence in the banking products and services that adhere to Sharia principles is one way to accelerate the growth of Islamic banking. Strategic issues in the form of misperception and the low level of public confidence in the Islamic banking can be changed through the implementation of policy improvements quantity and qual-ity of human resources. Competent human resources is the implementation of the principle of accountability, which contains elements of clarity of function in the organization and how to account for them. Perpetrators of Islamic banking must be accountable for performance in a transparent and fair. For businesses that sharia should be properly managed, scalable, and according to the stakeholders. Moreover, accountability is a necessary precondition for achieving a sustainable business.

[21] See KNKG, Basic Principles of Good Corporate Governance Code of Bank Indonesia, 2012, p.

Therefore, the Islamic banking:

a. Islamic banking must have a human resource master Islamic principles to ensure that the activities, products and banking services adhere to Sharia principles;
b. establishes the obligations and responsibilities of each are clearly human resources.

Furthermore, to offset the professionalism of human resources, neither the authority nor the Islamic banking must conduct education through increased literacy and community preferences, as well as the provision of clear information, so that there is a balanced and harmonious knowledge between Islamic banking and the public. This activity is in line with the meaning contained in the principle of trans-parency, that there is an element of disclosure and the provision of information that is easily accessible to all stakeholders. Transparency is needed for Islamic banking in order to carry out its activities in an objective and healthy. Transparency here means Islamic banking has the obligation:

a. provide information in a timely, adequate, clear, accurate and easily accessi-ble to all stakeholders in accordance with their rights.
b. Islamic banks do not reduce the obligation to fulfill the obligation of banking secrecy, professional secrecy and protection of personal rights.
c. Provide behavioral guidelines that have been agreed;
d. Convinced that all procedures, contract, product and services in accordance with Islamic principles that is halal, Tayib ikhsan and tawazun.

Furthermore, in addition to changing perceptions and increasing public con-fidence, to maintain the growth of Islamic banking are required to apply the prin-ciple of responsibility to maintain business continuity memndapat recognition as a good businessman. Therefore, Islamic banks need to do the following:

a. adhering to the principles of prudence and ensure adherence to Islamic prin-ciples and legislation, as well as the bank's internal regulations.
b. implement the contract that has been made;
c. implementing social responsibility, especially on the environment and the local community through charity, infaq and sadaqah.

Furthermore, through the application of the principle of independence, Islamic banking is expected to be committed and, hold fast to the truth and cannot be at intervention by any party, so as to provide assurance to the public that in conducting its activities, always consider the interests of all stakeholders, through the imple-mentation of good corporate governance, misperceptions can be changed, public confidence can be improved, and the objectives of sharia principles for wealth cre-ation and sustainable business can be achieved. Lastly, the implementation of the principles of fairness and equal treatment an element in common, and menisfestasi fair in the business world. In conducting its activities, the Islamic banking must consider the interests of stakeholders.

The role of the Sharia Supervisory Board in ensuring the implementation of Sha-riah governance.

One important distinction between conventional banking and Islamic bank-ing is the duty of Islamic banks and conventional banks that have Sharia to establish a Sharia Supervisory Board (DPS), which is appointed by the General Meeting of Shareholders (AGM) on rekomendasai Majelis Ulama Indonesia (MUI).[22] Sharia Supervisory Board (DPS) is tasked with providing advice and suggestions to the board of directors and Oversees the activities of the Bank to comply with Islamic principles, namely the principles of Islamic law in the field of Islamic banking em-bodied in the form of National Sharia Board fatwa -MUI, including ensuring the implementation of Shariah good corporate governance as one translation of Islamic principles. DPS duties and responsibilities include:[23]

a. assess and ensure compliance with sharia principles on operational guide-lines and products issued by banks;
b. oversee the process of new product development bank to match the MUI fatwa DSN-;
c. ask the DSN-MUI fatwa
d. conduct periodic review of compliance with sharia principles on the mecha-nism of fundraising and distribution of funds and services of the Bank;
e. requesting data and information related to sharia aspects of Bank work units

22 See Article 32 of Law No: 21 of 2008 concerning Islamic Banking.

23 See PBI No: 11/33 / PBI / 2009 on Implementation of Good Corporate Governance by the Islam-ic Banks and Sharia Business Unit.

in order to implement its tasks.

If the tasks and responsibilities of the DPS above, it can be concluded that the main task of the DPS only ensure compliance with Islamic principles, good processes, products and services, not on the growth and marketing of Islamic banks. Some things will be problems that arise from the structure and duties of the DPS is a guarantee that the monitoring is done in accordance with the purpose of Islamic principles. Potential conflicts of interest can occur given the DPS is part of the orga-nizational structure of Islamic banks, which was appointed by the General Meeting of Shareholders, while the duty to supervise the arrangements made by the Board of Directors.

The independence of DPS is required to ensure compliance with Islamic principles for the benefit of all stakeholders and improve public confidence in the Islamic banking. Therefore, it is necessary to avoid conflicts of interest between the duty and authority to ensure the implementation of Shariah DPS good governance with corporate interests. One way to avoid such conflict of interest is to strengthen the independence of the DPS. In addition, note the structure or point of DPS in the banking structure.

In practice in some countries, the structure of DPS will coordinate directly with the unit or product development department and departments for shari'a com-pliance, to ensure that all functions of the bank comply with Islamic principles. Furthermore, the role of DPS is very important to ensure compliance with Islamic principles, to be followed by the competence and mastery of the substance of Islam-ic banking by the DPS. Pleh therefore, can do some things to qualify as a member of DPS that is :

a. DPS members must go through the process of certification issued by the agency designated. There are currently no standard qualification, certifica-tion or accreditation standards for members of DPS to ensure quality and maintain the development, including Islamic banking.[24]

[24] Bappenas, Indonesian Islamic Financial Architecture Masterplan, Moulds Second, in July 2016, p. 145.

b. Supervisory board member is not just mastered Islamic principles, but also control of banking and other fields necessary for the development of Islamic banking products and services.
c. Recruitment processes DPS should be open, and meet the requirements set, including academics certified.

All three things were needed to address the general misconception that DPS Members only represented by a sharia expert only. The proper approach is to enter a variety of other professionals such as accountants, business management and legal experts. Currently, the determination of members of DPS is based on PBI No: 14/6 / PBI / 2012 which establishes the basis of fit and proper test for DPS for Islamic banks and Islamic business units. However, the regulation is still general and not specifically provide a solid procedure for the appointment of members of DPS. One thing to consider in setting standards is, guidelines used IFSB and AAOIFI Sharia that an audit is an important part of the sharia governance framework for financial institutions offering Sharia-compliant products and services.

Implementation of Shariah governance through an integrative approach

Successful implementation of Shariah good governance, can not be separated from the role of government, regulatory preparedness, businesses and people. Therefore, the successful implementation of governance in Islamic banks will be largely determined by the optimization of all four pillars.

a. Political will of governments to support and facilitate Islamic finance industry becomes the driving force for accelerating the growth of Islamic banking in Indonesia, given the characteristics of the growth of Islamic banking is bottom up, built from the bottom, so its development in line with the needs and public awareness. In fact, the growth of Islamic banking Indonesia is improving along with the attention and desire of the government to facilitate and organize well, including providing the institutions that will support the growth and development of Islamic banking industry, as well as monitoring and enforcement to create a healthy banking industry and sturdiness. Government's political will is intensified with the establishment of the Nation-al Committee for Development of Islamic Finance Indonesia, coordination between government and the financial services authority. In addition, the financial services authority kesadara encourage increased public against the Islamic finance industry through financial literacy and education programs are intensive and sustainable society.

b. Regulation solid and appropriate dispute resolution, as the basis for the implementation of Islamic banking activities to ensure certainty and legal protection for both businesses and people. Currently the Islamic banking industry is ready to finance most of the regulatory side, with the promulgation of Law No: 21 of 2008 concerning Islamic Banking. In addition, the regula-tions issued by the FSA and Bank Indonesia set up under DSN-MUI always follow the development of the Islamic banking industry, khsuusnya regard-ing product development and contract offered by Islamic banks. authorities have set up a financial services institution that will provide guarantees and legal protection for the public by publishing two POJK, namely POJK No: 1 / POJK.07 / 2013 on Consumer Protection Financial Services Sector, which adheres to the principles of transparency, equal treatment, reliability, confidentiality and security of data / information of consumers and the handling of complaints and the settlement of consumer disputes in a simple, fast, and affordable, and POJK No: 1 /POJK.07/2014 on Alternative dispute Resolution Institute of Financial Services Sector, which aims to facilitate the settlement of disputes fast, inexpensive, fair and efficient. The two POJK is expected to maintain the continuity of the Islamic finance industry, and encourage increased levels of public trust in the Islamic financial services sector, with the nature of dispute resolution which is based on win-win solution and the voluntary will of the parties.

c. Readiness of the Islamic banking industry in providing products and services that comply with the Islamic principles.

Based on the data, up to 2016, the number of perpetrators of Islamic banking is composed of 13 Islamic Banks (BUS), 21 Sharia (UUS) and 163 Financing, Bank Rakyat Syariah (SRB) with 2,163 office network BUS and UUS, while the market share of Islamic banking only reached 4.81%.[25] This condition is certainly still far from optimistic targets that have been

[25] Department of Islamic Banking, Islamic Banking Indonesia Roadmap 2015-2019, the Financial Services Authority, p. 12..

proposed since the launch of the Islamic Banking Act. Even based on data issued by the FSA, slowing the growth of Islamic banking since 2014, the market share of 4.85% to 4.83% in the year 2015. Meanwhile, the global lev-el, Indonesia inernasional gained recognition as a driving force of Islamic fi-nance in the future. Therefore, the necessary efforts to accelerate the growth of Islamic banking in order to take advantage of global opportunities. The government is already preparing the legal infrastructure by issuing Islamic banking 205-2019 roadmap containing Islamic banking sector development plans that refer to the Financial Services Sector Masterplan Indonesia, and in particular has published Master Plan for Islamic Financial Architecture Indonesia, which can serve as a reference for stakeholders in the Islamic banking the development of Islamic banking industry. The government has set seven strategic policy direction to anticipate 7 strategic issues, which will drive the acceleration of Islamic banking to be able to contribute signifkan for sustainable economic growth, equitable development and stability of the financial system as well as highly competitive. This goal can direaliali-sasikan considering Islamic financial advantages, namely:[26]

a. Inclusive finance and shared prosperity; channeling financing to the SME entrepreneurs are not only a source to creating employment and economic growth, but also increase financial inclusion that drive socio\-economic growth of society. Sharia Finance also allows dis-tribution berasal treasure of religious, social funds (zakat and Waqf) to the general public who are not able to.
b. Infrastructure development; Islamic financial instruments (sukuk) have been successful and widely used to finance projects infrastruk-tur effectively and efficiently.
c. The stability of the financial sector; Islamic financial enforces strict discipline in the finance portfolio, which is addressed only to the real sector as a consequence of a ban on speculative activities / gharar / maysir and usury. Besides promoting Islamic financial transparency and risk sharing, and using the principles of equity and partnership.

[26] see Mulyani Indrawati, Contribution of Islamic Finance for Achieving Sustainable De-velopment Goals (SDGs), Public Lecture, Surabaya, 28 October 2016.

Islamic financial assets based on based / asset backed so that the financial sector does not separate the real sector (not allowing exces-sive leveraging).

Understanding and increasing public Trust.

Efforts to change misperceptions and lack of public confidence to Islamic banking is done through several policies, which have been carried out on an ongoing basis. Here kebijakan that can drive change perceptions and raise the level of public confidence, either directly or indirectly.

Islamic banking policy direction

No	Policy Direction (table)	Purposes
1	Strengthen synergies between the policy of the government authorities and other stake-holders;	Optimization of support to the banking in-dustry and Islamic finance;
2	Improve the structure of funds for financing the expansion of the segment;	Expansion and change the perception that Is-lamic banking is intended for the segment or size of certain markets;
3	Improve the structure of funds for financing the expansion of the segment;	Provision of Poris impartial in the commer-cial segment and corporate, as well as sup-port trading activities across countries
4	Improving the quality of products and ser-vices	Anticipate trends affecting product develop-ment forward;
5	Improving the quality and quantity of hu-man resources, information technology and other infrastructure.	Encouraging the successful development of Islamic banking, mainly to produce products and services in accordance with public ex-pectations
6	Improving literacy and Improving literacy and community preferences	Improving literacy or the introduction of the community against the product, contract and Islamic banking services
7	Strengthening and harmonization of regu-lation and supervision..	Answering changes and dynamics of the global economy, then to create fairness for players in the industry, as well as more har-monious setting cross sectoral nature.

Source: Islamic Banking Indonesia 2015-2019 Roadmap.

CONCLUSION

Based on the above presentation, it can be concluded the following matters:

1. The growth of Islamic banking Indonesia experienced a slowdown caused by a number of strategic issues, including the quantity and quality of human resourc-es capable of ensuring compliance with Sharia principles, as well as mispercep-tions and low levels of public confidence in the products and services of Islamic banking.
2. The implementation of Sharia governance is important in the Islamic banking industry, because with Sharia principles of governance as well as the ultimate goal of Islamic banking, Shariah governance can ensure certainty and protection for Islamic banks and the public. Expected misperception can be eliminated through the implementation of the principles of transparency, accountability, re-sponsibility, independence and Fairness.
3. It takes an integrative approach in the implementation of Shariah governance in order to encourage the development of Islamic banking, namely through the functions of government and authority, the readiness of legal infrastructure, the role of the Sharia Supervisory Board and understanding of the community.

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