

CHAPTER I

INTRODUCTION

1.1. Background of Study

The growth and development of Islamic banking in Indonesia is increasing rapidly, this is evidenced by the increasing number of bank service networks and products from Islamic banks. This development should involve the improvement of good sharia banking governance, known as Sharia Governance (SG)¹. Since shariah compliance is an indicator that contributes greatly to IFIs (Islamic Financial Institutions), the application of Sharia Governance to IFIs must be considered.

With the rapid growth and development of Islamic banking, in its operations and regulations, Islamic banking implements a fatwa fatwa compiled by standard of Dewan Sharia Nasional Majelis Ulama Indonesia (DSNMUI)². On the other hand, various international standards emerged which were specifically formed to realize islamic financial institutions that are truly fair, professional and in accordance with sharia principles and standards. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Service Board (IFSB) are both leading international organizations that set standards adopted as a reference for compliance with Islamic banks throughout the world.

Islamic Financial Services Board (IFSB), which is based in Kuala Lumpur, was officially inaugurated on 3rd November 2002 and started operations on 10th March 2003. It serves as an international standard-setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services

¹ Penjelasan Atas Peraturan Bank Indonesia (PBI) No. 11/33/PBI/2009 Tentang Pelaksanaan Good Corporate Governance (GCG) Bagi Bank Umum Syariah (BUS) dan Unit Usaha Syariah (UUS) Pada Bagian Umum.

² Akhmad Faozan, 'Implementasi Good Corporate Governance Dan Peran Dewan Pengawas Syariah Di Bank Syariah', *La Riba*, VII.1 (2013), 1–14.

industry, which is defined broadly to include banking, capital market and insurance. In advancing this mission, the IFSB promotes the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing international standards consistent with Sharia principles, and recommend them for adoption³.

Based on IFSB data in 2018, the number of Islamic banks is 189 units with 82 Sharia Business Units. The number of branches in Islamic banks is 29,766 units with total assets of USD 1,652 billions and total Shari`-compliance financing totaling USD 1,013 billions. This information is obtained from aggregate data for total assets (21 countries), total financing in accordance with the sharia (19 countries), and total funding / liabilities (19 countries) calculated from available national structural data from islamic banks and islamic banking windows from a conventional bank.⁴

In Indonesia, until June 2018 number of public companies of the Islamic bank is 13 units with number of islamic banking windows, is 21 unit. The financing of the legitimate people amounted to 168 housing units with total assets up to 444,43 billion rupiah⁵. The research carried out by Firmansyah concluded that GCG (corporate governance) in the general bank of Sharia has gone well but not fully implemented the AAOIFI standard⁶. Therefore, the implementation of sharia governance in islamic banking windows is important given the total assets of Islamic Banking windows in June 2018 up to 138,88 trilliun rupiah With funding routing

³ IFSB,"Background if IFSB",About IFSB, <https://www.ifsb.org/background.php> (diakses pada 26 januari 2019)

⁴ IFSB," Selected Aggregated Indicators",Prudential and Struktural Islamic Financial Indicator, https://www.ifsb.org/psifi_05.php (diakses pada 26 januari 2019)

⁵ Otoritas Jasa Keuangan, 'Snapshot Perbankan Syariah Indonesia', 2017, 1–8 <<http://www.ojk.go.id/id/kanal/syariah/berita-dan-kegiatan/publikasi/Pages/Snapshot-Perbankan-Syariah-Indonesia-Posisi-30-September-2017.aspx>>. (diakses pada 26 januari 2019)

⁶ Firmansyah,Ali. 2018. The Implementation of Corporate Governance In Islamic Banking in Indonesia Based on AAOIFI Standart.Skripsi. Universitas Darussalam Ponorogo

up 105,34 Trillion rupiah.

Examples of poor banking governance can be seen from the case of Century Bank, which is now renamed “Bank Mutiara” and has been taken over by Lembaga Penjamin Simpanan (LPS). First, according to Maryono, Century Bank management made mistakes related to asset management such as collateral deposits. Second, do not maintain the Minimum Required Current Account, and thirdly, he has low quality ownership of Securities. According to him, these three things caused Century to always find it difficult to increase capital until before losing the clearing on November 13, 2008⁷.

Based on the case above explains that the Century Bank as the commercial which has relatively large of total assets and goog of management can bankrupt because of poor governance, it makes this research important, so the writer wants to try to examine whether Islamic banking in Indonesia, especially Islamic banking windows, in practice has applied and complies with the sharia governance standards issued by the IFSB.

The author examines corporate governance practices in islamic banking windows in Indonesia by using annual report data published by each islamic banking windows in Indonesia.

Mardian states that each Islamic bank has a different mdel in the fulfillment of sharia princilpes⁸. This research is important because due to the lack of research in Indonesia that examines the implementation of sharia governance based on IFSB standards. It also supports the practice of implementing sharia governance in islamic banking windows of regional bank in accordance with the principles on sharia.

⁷ Resti Ardhanawari, ‘Pelaksanaan Dan Pengungkapan Good Corporate Governance Pada Bank Umum Syariah’, *Jurnal Law and Justice*, 2.1 (2017), 66–78.

⁸ Sepky,Mardian. Study Eksplorasi Pengungkapan Penerapan Prinsip Shariah di Bank syariah. SEBI Islamic Economics & Finance Journal Vol. 04, No 1, Oktober 2011

Based on the background above, the authors are interested in conducting a research entitled “*Implementation Of Sharia Governance In Islamic Banking Windows of Regional Bank In Indonesia.*”

1.2. Formulation of The Problem

Based on the background information provided above, the formulation of the problem examined in this study is as follows::

1. How the implementation of *Sharia Governance* in Islamic banking windows of regional bank di Indonesia ?
2. How the implementation of *Sharia Governance* in Islamic banking windows regional bank di Indonesia based on standard issued by IFSB?

1.3. Research Purposes

Based on the formulation of the problem, the study aims to:

1. To analyze and understand the application of the *Sharia Governance* in islamic banking windows of regional banks in Indonesia .
2. To analyze and understand the practice of implementing *Sharia Governance* in islamic banking windows of regional banks in Indonesia in Indonesia based on standard issued by IFSB.

1.4. Benefits of Research

This study contributes to the development of literature, adds scientific discourse and as a reference for other researchers who are interested in conducting research on the application of corporate governance standards based on the IFSB on islamic banking windows of regional bank. Practically, the results of this research are expected to provide benefits for academics and practitioners regarding the implementation of corporate governance standards based on IFSB on islamic banking windows of regional bank with the hope that the results of this study can be useful to see and improve corporate governance in islamic banking windows of regional bank to implement the full standards issued in accordance with sharia principles.

1.5. Research Focus

Based on the background of the problem described, the focus of this research is the report on Good Corporate Governance issued by Islamic banking windows of regional banks in Indonesia in 2017 on the official website of each bank.

