

## The Disclosure of Islamic Ethics in Islamic Banks

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### Abstract

This research is aimed to acknowledge the disclosure of Islamic ethics in sharia banking business practices. Islamic banks have a different concept of understanding compared to a conventional bank in implementing the practices of collecting and channeling funds. Islamic economic system has stipulated mandatory regulations in every financial transaction of Islamic banks. Finding the balance on implementing business practices and religious orders have become the primary consideration of Islamic banks. The social responsibility as a higher priority has constructed Islamic banks with different ethical identity in contrast to the one conventional bank has. Having the ethical identity grants Islamic banks with a distinguishable unique characteristic. For the Islamic banks, the compatibility of Islamic ethics in its practices becomes one of the strengths in thriving among the highly competitive banking industry. This research is a textual analysis which discusses Islamic ethics on Islamic banks business. The methodology applied in this research is qualitative descriptive. Based on the findings, it is revealed that sharia banking in Indonesia has not yet been ideal in implementing Islamic ethics in its business practices. Islamic banks show the presence of similarity between Islamic and conventional banks in terms of service behavior.

**Keywords:** Islamic Banks, Islamic Ethics

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### INTRODUCTION

The occurrence of Islamic banks is the answer toward the society's needs over financial institutions which implements Islamic law in its operation. Its existence indicates the society's interests and desire to inner satisfaction in any transaction, especially in a country with a predominant Moslem population like Indonesia. Basically, operational bank engages in fields the likes of investment, fundings, and services for the society [1]. The impacts created include a competition between the two types of bank. Developing a financial product with a consideration of Islamic law is the uniqueness offered by the Islamic banks in order to compete with its rival. Therefore, every bank competes to attract more customers by offering unique financial products.

Fundamentally, a bank is a trust institution. The trust established in the society includes giving the sense of security in saving funds. Building the trust toward the bank relies on the financial institution's ethics in implementing its operation. Due to the fact that today's bank is categorized into two types, the defining of carrying the operational practices generate a significant difference. The difference could be either in the products or the services.

It can be caused by the clearly distinct kinds of ethics embraced.

The development of Islamic economic system after the fast-paced and highly interesting presence of Islamic banks has become an interesting topic of discussion. Furthermore, the sharia banking has had a legal protection from Act No. 21 of 2008. The fast-growing Islamic banks as a milestone of the Islamic economy especially in Indonesia started around 1980s. Yet, the first Islamic financial institution, Bank Muamalat Indonesia (BMI), was established in 1990. The existence of BMI showed a better improvement and brought positive impacts thus it can be accepted by society. In 2016, sharia-based intermediary institutions in Indonesia reached up to 12 banks (Otoritas Jasa Keuangan, 2016). Besides, conventional bank which opened Unit Usaha Syariah (UUS) branches had a downside due to the change into Bank Umum Syariah (BUS).

The frequently asked questions include the consistency of Islamic banks in implementing the Islamic law. Most likely, it is because there is a lack of Islamic banks' role in implementing Islamic economic system, which is *falah* [2]. Another factor is that in its practices, Islamic banks still indicate similarities with the conventional bank even though Islamic banks have higher social responsibility compared to the conventional ones. Yet, the benefits have not reached every group within the society. Based on previous research on business ethics Islamic banks still tend to be low.

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Comparison is done by using as many as 12 banks as research objects in disclosing ethical identity. Based on the results of measurements made the conclusion that Islamic banks in Indonesia are still poor related to the practice of social disclosure [3]. Other research shows the results of this study reveal that Islamic banks in Saudi Arabia show similar characteristics with conventional banks[4].

In practicing the financial transactions, sharia banking is prohibited to apply interest because it involves aspects of *riba*, *maysir*, and *gharar*. The practices in the Islamic banks (IBs) are required to fulfill all aspects of Islamic law in each of its agenda. It is due to the sharia banking which is based on regulations applicable in Islam. Applying interest-based system in Islamic banks is believed to potentially causes inequity and leads to falsehood. Therefore, in each of its transaction, sharia banking applies to profit and loss sharing as its foundation which differentiates Islamic banks from conventional bank.

The obedience toward the ethics by following regulations applicable in Islam is one of the unique characteristics which becomes the image once the word "sharia" is inserted to the name of a financial institution, such as a bank. As Islamic banks are known of having a different ethical identity because basically, it implements its system in relations to religion. The ethics in Islam cannot be separated from religion and built upon it [5]. The work ethics introduced by prophet Muhammad SAW reminds that religion is a guidance and attempt to achieve goodness [6].

#### **THEORETICAL FRAMEWORK**

The word ethics derived from Greek, *Ethos*, which means value, norm, as well as the indicator of good and bad [7]. Ethics can be interpreted as a teaching of goodness and falsehood in human's behavior wherein there is a moral sanction upon violating it. The physical aspect is highlighted in ethics since humans are gifted with logic and abilities as the resource to determine good and bad.

Ethics is a moral guidance for human in conducting an action. Meanwhile, the faith toward God (religion) gives control over human's lives. In the scope of economics, all form of business practices is aimed to benefit the society with welfare and prosperity under either the conventional law or religious orders. Islamic ethics stands as their business problem-solver by balancing all aspect in accordance with religious law. In Islam, ethical values contained in Al-Quran

and Al-Sunnah (hadist) as the philosophical foundation.

In practices of sharia banking, Islamic ethics has been developed into a principle mandatory to be held firmly and obeyed by staffs and customers. For a financial institution, Islamic banks have a deeper understanding about regulations in Islam must be the institution's cultural value. It is related to the reputation and as a key in developing the Islamic banks in the future.

As the basic key concepts in studying ethics, it can be explained as [8]:

- a. Honesty (*Ash-Shidiq*)  
One of the praiseworthy and highly recommended attitudes in Islam is honesty. This attitude is mandatory in human lives. One of the examples of its implementations is through *muamalat* (dealings). The honesty was meant to prevent any party to be aggrieved during making the *akad* (agreement) regarding a transaction. Thus, for Islamic banks, this moral value must be held high. It confirms the Decree of Allah, "O faithful human, fear Allah and say the true words." (QS. 33:70)
- b. Equality (*Al-Musawah*)  
Equality must exist in an agreement so that each party will have equal benefit, otherwise, it will only belong to one party only. The implementation of *akad* must be based on responsibility. The responsibility is not only to fellow human but also in the face of God. Therefore, it minimalizes a party's attempt to act unjustly to the other one.
- c. Justice and Truth (*Al-Adialah*)  
The transactions happening in Islamic banks must be done by protecting the justice, or in other words, both parties must feel pleased. Islam condemns any act that makes use of someone else's property. This is discussed in the Decree of Allah, "O faithful human, do not ever take your fellow human's wealth in any way but through a proper commerce that includes mutual interests, and do not kill yourself, indeed Allah is merciful to you." (QS. 4: 29).

#### **Ethical Foundation of Islamic Banks**

Islamic banks generally collect fundings and channel it to the society. Currently, Islamic banks focus more on improving the designs of its products and services based on the society's demand. To be able to compete against the competitors, Islamic banks work to attract more

customers. It is done in relations to the factor of customer's loyalty. For Islamic banks, reputation becomes important to the long-term operational sustainability as well as maintaining the customers' loyalty.

Bankers have an essential role in implementing the financial transactions in Islamic banks. These bankers have an important position as the determiner of the institution's reputation. Therefore, they have to cultivate objective attitude, neutral, honest and can be solutive to the customers. For the management of the bank, the responsibility includes [7]:

- a. Providing maximum services when the deposit is requested by the customer in accordance with the agreement.
- b. The bank must keep the financial confidentiality to secure the data.
- c. Giving accurate information when needed by the customers.
- d. Providing assistance to the attempts of Rupiah value stabilization.
- e. Looking after and maintaining the organization, working procedure, and administration.
- f. Selecting customers carefully in terms of channeling credits to be more accurate to the target.

As it is explained above, Islamic banks must prioritize a wide range of society above the bank's interests. Besides, the banks' orientation is not merely profit but also the society's socioeconomic sustainability. The stakeholders must be aware that Islamic banks have a mission to implement the business to achieve justice in the economic system for those in needs thus putting it in a higher priority instead of a mere profit.

## RESEARCH METHODS

The method applied in this research is qualitative descriptive, aimed to examine the disclosure of Islamic ethics in the business of Islamic banks. This study uses textual analysis approach from different sources considered, the likes of journal articles, books, or any other relevant literature. Literature namely Al-Qur'an and Hadist are treated as supporting theory. This method is implemented due to the research object's tendency to lead to universal interpretation about concepts related to obedience toward Islamic ethics in the business of Islamic banks. The literature review becomes a way to answer the questions in this research.

## RESULTS AND DISCUSSION

Fundamentally, Islamic banks existed due to the Islamic law which prohibits *riba* in *muamalat* practices. According to experts, the capitalistic economic system tries to gain profit by the system of interest. Practically, *riba* attempts to make use of someone else's wealth with the least efforts. Accordingly, there is inequity wherein rich individuals can easily profit from the low-class people. The prohibition of *riba* system application has been stipulated by, "if prostitution and *riba* have thrived in a society, they have justified the punishment from Allah Azza Wajalla for themselves" (HR Thabrani and Hakim). Therefore, *riba* is *haram* (forbidden) in Islam

In implementing Islamic ethics in its business practices, the basis of sharia principles has indeed contained in the article 2 paragraph (3) PBI No. 10/16/PBI/2008. The point in that law is about the compliance of sharia principles in the implementation of Islamic law. The principles include justice and balance ('*adl wa tawazun*), benefit (*maslahah*), universalism (*alamiyah*) and in the business practices there cannot be any aspects of *gharar*, *maysir*, *riba*, *zalim*, and *haram* goods [7]. Close to Wangsawidjaya, the ethical values adopted by Islamic banks are based on Al-Qur'an, briefly explained by [1]:

1. *Ilahiah* (divine) Value

This value is the highest among all the values. *Ilahiah* is linked to the aspects of faith toward Allah in everything. There is one verse that points out about this value. The verse reads, "And your God is the Almighty God; there is no God other than Him who is the most merciful and gracious" (QS. Al-Baqarah: 123). In other words, every service or product offered should be delivered in agreement with *ilahiyyah* values. The value attempts to reveal that every act should be done in pursuit of *rida* Allah. Therefore, every practice is meant to follow the orders of Allah [9].

2. *Khilafah* (caliphate) Value

This value is related to human leadership as God's representative on Earth. Human as caliphate has a vital role to the best of protecting prosperity on Earth. As Allah's representative on Earth, humans are expected to always practice good deeds, obey Allah's order in any act, and protect the natural sustainability for the sake of all living creature [9]. It is contained in *Surah* (chapter) Al-Baqarah verse 30th, "Remember when your God preached to the

angles: "I truly would like to place a caliphate in the Earth." They responded with: "why would you place a caliphate in the Earth those who would destruct and spill blood on it, while you have us who worship you, praise you, and sanctify you?" God preached: "Truthfully I know what you do not."

3. *Tawazun* (balance) Value

This value depicts justice. *Tawazun* can be interpreted as scale. The primary point of this value is the balance of a variety of aspects. The aspects include material, spiritual, private and public, financial and real, and sustainable use aspects [8]. Therefore, the business of Islamic banks is not only after maximized profit for the stakeholders but also its benefits to be gained by all party involved.

4. *Adalah* (justice) Value

This value in the context of sharia financing wants economic practices which are based on justice and transparency. Basically, the final objective is justice and brotherhood manifested through proper economic transactions with Islamic law or based on Al-Qur'an and As-Sunnah. The system which applies Islamic principles is believed to be effective in reducing social as well as economic inequality. The reason for the prohibition on *riba* in sharia financing transactions is that it can generate injustice and harm certain party involved. Besides, the applying system of interest in financial transactions is also violating the concept of justice. It can be caused by the fact that money in Islam is not a commodity, instead, it is an exchange tool. In any economic practice, the Prophet's traits, namely *shiddiq* (truthful), *amanah* (trustworthy), *fathonah* (clever), and *tabligh* (communicative) should be involved.

5. *Mashlahah* (benefit) Value

*Mashlahah* is defined as peace and good which derived from the word *shalu-hayshlihu-ishlah*. Fundamentally, *mashlahah* in Islam means the forms of goodness and benefits in correlation to worldly and afterlife, material and spiritual, as well as individual and collective. The value can be perceived in the Islamic banks' product, *Qard Hasan* [10]. The target of the product is the marginalized and low-class people. The and business models in either national or international scope. The big chance has made banking industry look upon opening

financing source of *Qard Hasan* gathered inside the Islamic banks is equity. Meanwhile, the sources of financing gathered outside the Islamic banks are *infaq*, *shodaqoh*, and other *halal* sources.

Based on the previous researches, summarized by Ningsih, stated that the condition of sharia banking in Indonesia is still far from ideal. It is so due to the lack of fulfillment on business ethics from the bank. The main components are [7]:

- a. Related to the disinterests toward individuals of the sharia bankers themselves (self-interest).
- b. Friendship attitude has been enacted by the sharia bankers to the customers as well as the stakeholders.
- c. The sharia bankers' personal morality is considered as good. But, for a complicated case especially in the shifting of the main bank's regulation, their responsibility is considered inadequate.

The lack of harmonization toward the three components becomes an obstacle stated in Ningsih's research toward the assessment of business ethics of Islamic banks.

In its practices, the Islamic banks in Indonesia have characteristics in its products and operations [10].

1. The segmentation of Indonesian Sharia Banking's Customers

The financing segments conducted by the customers is dominated by the consumptive financing, followed by productive financing. In each Islamic banks, there are different customer segmentation, for instance, segmentation in the sector of UMKM. Besides, there is also a micro-segment. Yet, in the practices, there still are Islamic banks which provide assistance toward minor and intermediate customers through different treatments. Even though the financing regulation of UMKM has been organized by the government. As a result, the existence of the difference in the standardization impacted the classification of customer segmentation in the Islamic banks.

The highly competitive situation in many countries, including Indonesia, eventually demand diversification of products services Islamic business services. It is proven that in Indonesia there is a heightened number of Islamic banks established. Otoritas Jasa

Keuangan (OJK) reports that in 2016, the number of Islamic Commercial Bank (*Bank Umum Syariah/BUS*) is 12 and 22 for Islamic Business Unit (*Unit Usaha Syariah/UUS*)

2. The Offering of Indonesian Sharia Banking

Recently, the products and services offered by the Islamic banks in Indonesia can compete with the ones offered by the conventional bank. Even though there are flaws, Islamic banks could give an additional value which differentiates itself from its competitors. For a clearer picture, any segmentation given by Islamic banks in providing services or products toward customers include:

- a. Corporation/institutional segment, wherein Islamic banks focused in this segmentation could provide services similar to the one provided by the conventional bank.
- b. Product Retail Segment (SMEs), a featured product of Islamic banks. Almost every Islamic banks has this segmentation to provide funding for small and medium enterprises.
- c. Consumptive Retail Segment, a form of service which offers saving, deposit, transfer, wealth management, e-money, e-channel through internet banking, mobile banking, SMS banking, mortgage, KPR, KKB, multifunction, and so on.

**CONCLUSION**

This research attempts to disclose the Islamic Ethics in the business of Islamic banks in Indonesia. Following Islamic principles in every practice of Islamic banks is a must. Obeying Islamic principles means the Islamic banks can implement the business according to the ethics. Avoiding the prohibition and carry out Allah's orders in every practice implemented by the Islamic banks as a form of proper ethical conducts.

Based on the findings, the Islamic banks in Indonesia are seen as not optimum in conducting the business in accordance with Islamic regulations. It is shown in the characteristics of the products and practices which tend to be similar to the ones in the conventional bank.

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