Quo Vadis, Islamic Banking?

Literature Study on Islamic Commercial Banks and Sharia Business Units in Indonesia

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Abstract

This paper aims to describe the condition of the financing portfolio in Islamic banking that is not following its characteristics, namely profit sharing; identify the cause and contribute to the solution of the problem. The dominance of *murabahah* financing is shown in proportion to the position on January 31, 2017, which reached 60% of total financing. The macro impact of the domination of murabahah transactions is that the monetary sector moves faster than the real sector which can ultimately lead to an economic crisis. Micro-impact, *murabahah* financing tends to encourage individual society to be consumptive because the purpose of this financing is more for consumptive matters, while profit-based financing will encourage individuals to be productive because profit-based financing is definitely intended to finance productive things. Broadly speaking, the problem needs to be addressed through two things. The first solution comes from the Government in the form of the availability of supporting institutions and regulations that are conducive to increasing the portfolio of profit-based financing. The second solution is sourced from Islamic banking itself in the form of an increase in the quantity and quality of Islamic human resources in the form of massive but highly selective recruitment and providing training to increase understanding of the concept of Islamic sharia and sharia banking practices in a professional manner.

Keywords: consumptive, *mudharabah*, *murabahah*, *musyarakah*, productive, and profit sharing

1. Introduction

As a comprehensive way of life, Islam encapsulates all aspects of life, namely *aqidah*, *sharia*, and *akhlaq* (Zarqa, 1959 in Antonio, 2001). Furthermore, Antonio (2001) explained that Islamic *sharia* as a *sharia* brought by the last Apostle has its own uniqueness because it is not only comprehensive but also universal. Comprehensive means that Islamic *sharia* encapsulates all aspects of life, both ritual (worship) and social (muamalah), and universally means that Islamic *sharia* can be applied in every time and place until the End Day. This universality according to Antonio (2001) seems clear especially in the field of *muamalah*.

According to Ibrahim al-Hamd (2007), the word "*aqidah*" is taken from the word *al-'aqdu* which is a strong bond and attraction. It also means stabilization, determination, hooking, temple attachment, and strengthening. *Aqidah* in general terms is used to refer to a solid mind decision. The term *aqidah* is also used to refer to solid trust and decisive decisions that cannot be overwhelmed. That is what (read: ideology) is believed by a person, tied tightly by his conscience, and made as a school or religion that he adheres to, regardless of whether he is right or not. As for the *aqidah* of Islam is a firm belief in Allah, His angels, His holy books, His Apostles, the Last Day, *qadar* (read: destiny) of good and bad, and the entire contents of the Qur'an *Al-Karim* and *As-Sunnah Ash-Shahihah* in the form of religious subjects, orders, and news, as well as anything agreed upon by the generation of *Salafush Salih* (*ijma'*), and total submission to *Allah Ta'ala* in terms of legal decisions, orders, destiny, or *shara*', and submission to the Prophet Muhammad by obeying them, accepting their legal decisions, and following them (Nashir Al-Aql in Ibrahim Al-Hamd, 2007).

Shariah or etymologically written *syar îah* (language) as stated by Hasbi as-Shiddieqy in Rohidin (2016) is "The path where the source of the waterfall or the path that the waterfall passes" which is then associated by the Arabs as *at-thariqah al-mustaq îmah*, a straight path that must be followed by every Muslim. According to Rohidin (2016) shifting the meaning of denonative, source of water, to being a straight road has a reason that can be reasoned. Every living creature definitely needs water as a means of maintaining the safety and health of the body, to survive in the world. Likewise, the notion of a "straight path" in it implies that the Shari'a is a guide for humans to achieve good and safety both soul and body. It is the straight path that every human being must continue to achieve happiness and safety in his life. Whereas in terms of terminology (the term) *shari'ah* is defined as the rules or rules that are given by Allah to His servants to be followed. Clarified by the opinion of *Manna 'al-Qathathan*, that *shar''at* means "all the provisions of Allah which are stipulated for His servants, both concerning faith, worship, morals, and muamalah. Related to this, Antonio (2001) states that sharia consists of muamalah and worship. The law of origin in worship is forbidden, so worship is not prescribed except worship that is prescribed by Allah and His Messenger (Al Qawaid Wal Ushul Al Jami'ah, 72). Whereas the Law of origin in various agreements and muamalat is valid until there is a proposition that shows its falsehood and its prohibition (I'lamul Muwaqi'in, 1/344).

This paper intends to describe the problems that occur in Islamic banking in Indonesia today in the form of a low portfolio of profit-based financing because it is dominated by non-profit-based financing. The dominance of non-profit-based financing on the one hand is an encouraging thing, but on the other hand, implies the existence of various problems. Ideally, the Islamic banking portfolio is dominated by profit-sharing based financing which has many benefits but there are many obstacles in its implementation. This is a problem faced by Islamic banking today. The end of this article contains the contribution of thought to solve the problem.

2. Method

This paper is a literature study conducted by reviewing various literatures consisting of the results of previous research, relevant sourcebooks, and regulations related to *murabahah* financing. Through this literature study, it is hoped that an overview of the current condition of Islamic banking is obtained, especially in Indonesia which is dominated by margin-based products, namely *murabahah* which is a problem for Islamic banking and at the same time obtains a solution to these problems.

3. Main Characteristics of Islamic Banking

Islamic banking is a field that belongs to the realm of *muamalah* in Islam. According to the Law of the Republic of Indonesia Number 21 of 2008 concerning Sharia Banking, Sharia Banking is everything concerning Sharia Banks and Sharia Business Units, including institutions, business activities, as well as ways and processes in carrying out its business activities. So, there are 3 topics of Islamic banking, namely about institutions, business activities, and ways and processes in carrying out business activities of Islamic banks. In terms of institutions, there are three types of Islamic banks, namely Islamic commercial banks (BUS), sharia people's financing banks (BPRS), and sharia business units (UUS). Sharia bank's legal form is Limited Company (PT), whereas conventional banks can be in the form of PT, cooperatives, or regional companies. Islamic commercial banks are Islamic banks that in their business activities provide payment traffic services. Sharia people's financing banks are Islamic banks which in their activities do not collect public funds in the form of demand deposits, so they cannot issue checks and demand deposits. A sharia business unit is a work unit of the head office of a conventional commercial bank that functions as the main office and branch office unit that conducts business activities based on sharia principles.

In terms of business activities, both BUS, UUS, and BPRS are basically the same as conventional bank business activities, which consist of 3 (three) main activities, namely fundraising; channeling of funds; and providing services. So, in terms of institutions and business activities, between conventional banks and Islamic banks is not much different; a very real difference is in the way and process of doing business. In terms of ways and business processes, conventional banks conduct their business activities based on the interest system, while Islamic banks conduct their business activities based on the principle of profit and loss sharing. Therefore, Islamic financial institutions, especially Islamic banking carry out the mandate to conduct operations with the principle of profit-sharing which is the main characteristic of Islamic financial institutions. Products with profit-sharing principles are products with *mudharabah* and *musyarakah* contracts.

According to Amien (2015) actually, the difference between Islamic banking and conventional banking lies in the interest system and profit-sharing. The main difference lies in the type of profit taken by the bank from the transaction carried out. If a conventional bank bases profits on interest taking, then the Islamic bank takes advantage of what is referred to as wages (*ujrah* or fees), either in the form of services (fee-based income), mark-ups, or profit margins as well as profit and loss sharing. Meanwhile, according to Iqbal, et, al. (1998) Islamic banking performs functions that are mostly the same as conventional banking, but there are 3 (three) differences in Islamic banking from conventional banking, namely in terms of Risk Sharing, Emphasis on Productivity as Compared to Credit Worthiness, and Moral Dimension.

In *the risk-sharing* context, Iqbal, et, al. (1998) said as follow:

> *"The most important feature of Islamic banking is that it promotes risk-sharing between the provider of funds (investor) on the one hand and both the financial intermediary (the bank) and the user of funds (entrepreneur) on the other hand."*

Meanwhile in the *emphasis on productivity as compared to creditworthiness* context, Iqbal, et, al (1998) said as follow:

> *"Under conventional banking, all that matters to a bank is that its loan and the interest thereupon are paid to it on time. Therefore, in granting loans, the dominant consideration is the credit-worthiness of the borrower. Under Profit-Loss Sharing (PLS), the bank will receive a return only if the project succeeds and produces a profit. Therefore, an Islamic bank will be more concerned with the soundness of the project and the business acumen and managerial competence of the entrepreneur. This feature has important implications for the distribution of credit as well as the stability of the system. Even under non-sharing modes such as murabahah, the financing is linked to a commodity or an asset. This ensures the involvement of finance in the productive process and minimizes speculative or wasteful use of funds."*

And in the *context of the moral dimensions*, Iqbal, et, al (1998) said:

> *"Conventional banks generally pay little attention to the moral implications of the activities they finance. As against this, in the Islamic system, all economic agents have to work within the moral value system of Islam. Islamic banks are no exception. As such, they cannot finance any project which conflicts with the moral value system of Islam. For example, they will not finance a wine factory, a casino, a nightclub, or any other activity which is prohibited by Islam or is known to be harmful to the society."*

The first characteristic according to Iqbal, et al. (1998) above, namely risk sharing should be reflected in Islamic banking financing portfolio, namely financing by *mudharabah* or *musyarakah* contract. Strengthening the opinion of Iqbal, et al. (1998), Syafei (2012) states that all activities carried out by Islamic banks must be based on Sharia principles. The characteristics of Islamic banks appear clearer when compared with conventional banks as follows:

Table 1. Comparison between Islamic banks and conventional banks

ISLAMIC BANK	CONVENTIONAL BANK
1. Make only halal investments;	1. Investments that are lawful and illegitimate;
2. Based on the principle of profit-sharing, buying and selling, and rent;	2. Using interest device;
3. Profit and *Falah* oriented;	3. Profit oriented;
4. Relations with customers in the form of partnership relationships;	4. Relations with customers in the form of debtor-creditor relationships;
5. The collection and distribution of funds must be following the *fatwa* of the Sharia Supervisory Board (DPS)	5. There is no similar Board.

Source: Antonio (2001)

Based on the characteristics of Islamic banks as described above, products with the principle of profit-sharing should be the dominant portfolio in Islamic banks, but unfortunately, the facts are not the same. In other words, the financing portfolio in Islamic banking should be dominated by profit-sharing based products, namely *mudharabah* and *musyarakah*. However, in reality, it is precisely non-risk sharing financing that dominates the Islamic banking portfolio, namely financing with *murabahah* contracts.

4. Domination of *Murabahah* Products and Their Problems

According to Muhammad (2008), several reasons explain the high percentage of *murabahah* financing in Islamic banking. First, *murabahah* is a short-term investment mechanism and compared to the profit-sharing system, it is quite easy. Secondly, the mark-up in *murabahah* can be determined in such a way as to ensure that the bank can obtain a profit comparable to the profits of banks based on interest rates which are rivals of Islamic banks. Third, *murabahah* keeps the uncertainty that exists in income from businesses with a profit-sharing system. Fourth, *murabahah* does not allow Islamic banks to interfere with business management, because banks are not the customer's partners, and because their relationship in *murabahah* is the relationship between creditors and debtors.

Data per 1 January 2017 according to the Financial Services Authority (OJK), the percentage of profit sharing financing only accounts for around 40% of total financing, while *murabahah* receivables account for around 60%. Previous data according to Prayogo (2011), practices in Islamic banks in Indonesia, *murabahah* financing portfolio reaches 70-80%. The data shows that the dominance of products with *murabahah* contracts is undeniable. According to Mu'allim (2004), *murabahah* is an idol in Islamic bank financing.

This condition is not only in Indonesia, but also occurs in Islamic banks in the world, such as in Malaysia and Pakistan. in Islamic banking practice, *murābahah* contract is one of the most dominant financing schemes in Islamic banking compared to other financing schemes (Lathif, 2012). The dominance of non-profit-loss sharing-based financing such as *murabahah* or low of profit-loss sharing-based financing (*musyarakah* and *mudharabah*) in Islamic banking is a global phenomenon faced by Islamic banking everywhere (Prasetyo, 2013).

According to Muhammad Ibn Ahmad Ibn Muhammad Ibn Rusyd (1988) in Antonio (2001), *Bai'al-murabahah* is the sale and purchase of goods at the original price with the added benefit agreed upon. In other words, *murabahah* is a sale and purchase contract for certain goods, where the seller clearly states the goods being traded, including the purchase price of the goods to the buyer, then he requires a certain amount of profit. The National Sharia Board (DSN) *fatwa* on *murabahah* (No. 04 / DSN-MUI / IV / 2000) is as follows:

- Banks and customers must make a *murabahah* contract that is free of usury.
- The goods sold and traded are not forbidden by the Islamic Shari'ah.
- The bank finances a portion or all of the purchase price of the goods whose qualifications have been agreed upon.
- The bank buys items that customers need on behalf of the bank itself, and this purchase must be legal and free of usury.
- The bank must submit all matters relating to the purchase, for example if the purchase is carried out in debt.
- The bank then sells the item to the customer (ordering) with a selling price worth the price plus the profit. In this connection, the bank must honestly inform the customer of the cost of goods and the required costs.
- The customer pays the price of the agreed item at a certain agreed time period.
- To prevent misuse or damage to the contract, the bank may enter into special agreements with customers.
- If the bank wants to represent the customer to purchase goods from a third party, the *murabahah* sale and purchase agreement must be made after the goods, in principle, belong to the bank.

The aforementioned DSN *fatwa* in practice is not fully carried out, especially the 4th and 9th fatwa items. This is understood because of the technical constraints of Islamic banking that are less likely to implement the *fatwa*. Thus the *murabahah* contract cannot be implemented by fully fulfilling the applicable rules. Besides, the dominant portfolio of *murabahah* financing in Islamic banking, in addition to weakening the main characteristics of Islamic banking based on profit sharing, also implies the existence of various problems. OJK (2016) shows the problem issues comprehensively as follows:

Table 2. *Murabahah* problems

No.	SHARIA ISSUES	LEGAL ISSUES	OPERATIONAL ISSUES
1	*Murabahah* can be trapped into the *tawarruq* (Note 1) contract so it doesn't happen transfer of ownership significantly from the Bank to Customers.	Some of the financing deeds made by a Notary have not fulfilled the terms and conditions of the principal agreement outlined in sharia law.	The concept of the Bank as a money intermediary institution has resulted in the Bank being unable to act as a direct seller of *murabahah* financing.
2	Mark up that based on non-cash financing is considered as the concept of the value of time that is contrary to the value of sharia.	An accreditation clause in the *murabahah* contract could be weakening customer position (for example prohibition clause for the customer (negative covenant).	Upper-risk coverage overall goods often delegated to the customer on *wakalah* contract from the Bank.
3	If there is no activity submission of objects *murabahah* financing then the contract will fall as a borrowing contract.	Mortgage rights (APHT) on the Bank profit margin can become usury.	*Murabahah* Financing is often equated with accounts receivable because it is no VAT tax applied.
4	Rescheduling or rollover for incapable paying customers of *murabahah* is considered as a form of usury as a result of charging additional fees as compensation for an extended time.	The existence of legal pluralism is related to aspects of the guarantee.	If the Customer terminates the contract in pretending to be unable fulfill the obligation, it is categorized as a moral hazard that can harm the Bank.
5	Giving a discount on *murabahah* contract for customers who paid off earlier than the time agreed upon has been promised.	Some contracts have still arranged the settlement of the dispute on the contrary to the absolute authority of religious courts.	There are customer claims that they don't owe to the Bank, but to third parties whose sending goods.

Source: OJK (2016)

So the core problem in implementing *murabahah* is:

a. The Existence of *Wakalah* Element

If in practice Islamic banks provide financing with *murabahah wakalah* before the goods belong to the bank, the *murabahah* contract is not following the concept of *fiqh*, this is because the goods transacted do not yet belong to the bank, while the profits from the goods to be transacted have been determined. This is almost the same as short sale transactions in the capital market (Antonio, 2001). In this case, the bank functions as a seller while the bank at that time does not have the goods sold to the customer.

b. Margin Factor

Some Islamic banks in determining the margin level tend to still use the payment period and market interest rates as a reference for determining profits such as determining credit interest in conventional banks. Even the margin requested to customers will be greater than the cost of financing, so that the impression of Islamic banks is still based on the concept of the time value of money that is not justified in Islamic banking. Empirical facts in the field, Islamic financial institutions (LKS) "rarely" apply *murabahah* in sharia, so *murabahah* turns into just mark-up-based financing that has the characteristics of providing definite benefits and is determined in advance, which of course is very similar to the benefits imposed in the interest system, system which from the beginning actually intended to be annulled by the Islamic economy.

Besides, the implementation of *murabahah* in Islamic banking needs to be re-examined considering that *murabahah* in Islamic *Fiqh* is a form of buying and selling which initially had no relation to financing. Contemporary scholars have allowed the use of *murabahah* as a form of alternative financing by taking into account the following two main things (Ottoman, 1999 in Ascarya and Yumanita, 2005):

a. At first, *murabahah* was not a form of financing, but only a tool to avoid "interest" and not an ideal instrument to carry out the real objectives of Islamic economics. Thus, this instrument is only used as a transitional step taken in the process of economic Islamization, and its use is limited to cases where *mudharabah* and *musyarakah* cannot be applied.

b. *Murabahah* appears not only to replace "interest" with "margin", but as a form of financing permitted by Sharia scholars with certain conditions. If these conditions are not met, then *murabahah* may not be used and defective according to Sharia.

5. Benefits of Profit/ Loss Sharing-Based Products

Saparie (2017) stated that the margin system for *murabahah* financing is easily misinterpreted as the concept of "sharia credit" by ordinary people. On the other hand, at the macro level, this type of financing makes monetary nuance more prominent than the real sector, because *murabahah* financing is generally consumptive. Of course, this is not in line with Islamic economic ideals that demand a balance between the monetary sector and the real sector. Islamic bank financing which is more touching on the real sector and driving the economy is *mudharabah* and *musyarakah* financing. According to Antonio (2001), in general, the principle of profit-sharing in Islamic banking can be done in four main contracts, namely *al-musyarakah*, *al-mudharabah*, *al-muzara'ah*, and *al-musaqah*. Even so (continued Antonio, 2001), the principle most widely used is *al-musyarakah* and *al-mudharabah*, while *al-muzara'ah* and *al-musaqah* are used specifically for plantation financing or agricultural financing by several Islamic banks.

Mudharabah comes from the word *dharb*, meaning to hit or walk. The definition of hitting or walking is more precisely the process of someone hitting his foot in running a business (Muhammad Rawas Qal'aji, 1985, in Antonio, 2001). Technically, *al-mudharabah* is a business cooperation agreement between two parties where the first party (*shahibul maal*) provides all (100%) capital, while the other party becomes the manager. *Mudharabah* business profits are shared according to the agreement outlined in the contract, whereas if the loss is borne by the owner of the capital as long as the loss is not due to the manager's lapses. If the loss was caused by the manager's fraud or negligence, the manager must be responsible for the loss (Ahmad Ash-Syarbasyi, 1987, in Antonio, 2001). While *al-musyarakah* is a cooperation agreement between two or more parties for a particular business where each party contributes funds (or charity / expertise) with an agreement that the benefits and risks will be borne jointly under the agreement (Bidayatul Mujtahid II: 253 - 257 in Antonio, 2001).

Mudharabah and *musyarakah* contract implies various benefits that they can be ascertained to be productive, not consumptive so that they touch the real sector, and therefore will be able to move the economy both locally and nationally. Antonio (2001) details the benefits of al-mudharabah and al-musyarakah as follows:

1) The Bank will enjoy an increase in profit sharing when customer business profits increase.

2) Banks are not obliged to pay profit sharing to funding customers regularly but are adjusted to the bank's income/business results so that the bank will never experience a negative spread.

3) Refund of the principal of the financing adjusted to the cash flow/cash flow of the customer's business so as not to burden the customer.

4) Banks will be selective and careful (prudent) is seeking a business that is truly lawful, safe, and profitable because the concrete and truly happening profits will be shared.

5) The profit-sharing principle in *al-mudharabah*/*al-musyarakah* is different from the principle of fixed interest where the bank will charge the recipient of the financing (customer) one fixed amount of interest whatever the profit generated by the customer, even if it loses and an economic crisis occurs.

Beik (2006), outlines the benefits of profit/ loss sharing-based financing by outlining the various advantages as follows: first, *musyarakah* and *mudharaba* financing will drive the real sector because this financing is productive, which is channeled to investment and working capital needs. If investment in the real sector increases, it will certainly create new employment opportunities so that it can reduce unemployment while increasing community income. Second, the Customer will have two choices, whether to deposit funds with Islamic banks or conventional banks. Customers will compare the expected rate of return offered by Islamic banks with conventional bank interest rates. Where so far, the tendency of Islamic bank rate of return is higher than conventional bank interest rates. Thus, it is hoped that it will be the driving force for increasing the number of customers in Islamic banks. Third, Increasing the percentage of profit sharing financing will encourage the growth of entrepreneurs or investors who dare to make risky business decisions. In the end, innovations will develop which will increase the competitiveness of Islamic banks. Fourth, the *mudharabah* and *musyarakah* financing patterns are productive-based financing patterns that provide added value to the economy and the real sector so that the possibility of a financial crisis will be reduced. Besides, optimizing the financing for the results of Islamic banks can foster the spirit of customer entrepreneurship which in turn can increase income distribution and empower the economy of the community

In line with Beik (2007), Hadi (2011) describes the benefits of financing sharing in a more macro context, namely that profit-sharing financing is a financing pattern that reflects the spirit of Islamic banking. The reasons are as follows; first, profit-sharing financing can reduce the chances of an economic recession and financial crisis. This is because Islamic banks are asset-based financial institutions. That is, Islamic banks transact based on real assertions rather than relying on paperwork alone. While on the other hand, conventional banks trade based on paperwork and documents only, then charge interest with a certain percentage to prospective investors. Second, the investment will increase which is accompanied by the opening of new jobs. As a result, the unemployment rate will be reduced and people's income will increase. Third, the financing of profit sharing will encourage the growth of entrepreneurs or investors who dare to make risky business decisions. This will lead to the development of innovations, which in turn can improve the competitiveness of this nation.

6. Determinants of Low Profit/ Loss Sharing-Based Financing Portfolios

The benefits of profit-sharing-based products are undeniable, both for *shahibul maal*, *mudharib*, the economy locally, and nationally, but the fact is that the profit-sharing-based product portfolio occupies a relatively small portion compared to the margin-based product portfolio. This can occur due to various factors such as risk. Antonio (2001) describes that *al-mudharabah* and *al-musyarakah* have relatively high risks as follows:

1) *Side streaming*, the customer uses the funds not as stated in the contract.
2) Negligent and intentional errors.
3) Concealment of profits by customers, if the customer is dishonest.

Related to this, Muhammad (2005) in Akhbar (2006) stated that the magnitude of risk is one of the factors causing the low portion of profit and loss sharing based financing in Islamic banks. In line with Muhammad (2005) and Antonio (2001), Hadi (2011) also stated that this high risk makes the composition of funds distributed to the public more in the form of trade financing (*murabahah*), compared to the form of capital participation (*mudharabah* and *musyarakah*), whereas that has a direct impact on economic growth in the form of growing new business opportunities, new employment opportunities, and increased population income.

Yuliani (2015) sees these risks as being of various dimensions, namely credit risk, price risk, liquidity risk, and operational risk. From the results of Yuliani's research (2015) It appears that *murabahah* which is a margin-based product has the lowest average risk, while *mudharabah* and *musyarakah* which are profit sharing-based products have the highest average risk. In full, a summary of Yuliani's (2015) research results is as follows:

Table 3. Financing risk

TYPES OF FINANCING	RISK				
	Credit	Price	Liquidity	Operational	**Average**
Murabahah	2,56	2,87	2,67	2,93	**2,76**
Mudharabah	3,25	3,00	2,67	3,08	3,00
Musyarakah	3,69	3,40	2,92	3,18	3,30
Ijarah	2,64	2,92	3,10	2,90	2,89
Istishna	3,13	3,57	3,00	3,29	3,25
Salam	3,20	3,50	3,20	3,25	3,29
Diminishing Musyarakah	3,33	3,40	3,33	3,40	3,37

Source: Yuliani (2015)

This is in line with the statement of the Deputy Governor of Bank Indonesia, Halim Alamsyah, who said that domination of the *murabahah* contract in the Islamic banking portfolio is because of the need for many Indonesian customers who are consumptive and Islamic banks have a tendency to provide financing with an easier contract with good margin and not too high risk (http://www.icmi.or.id).

Another factor that causes a low portfolio of profit-sharing-based financing according to Khalil, Rickwood, and Muride (2000) in Akhbar, (2006) is a problem caused by moral hazard and adverse selection. Meanwhile, according to Sugema (2007), low-profit sharing financing was mainly due to asymmetric information and administrative problems (non-standardized accounting, bad debt). Asymmetric information is a condition that shows some investors have information and others do not have it. Information asymmetry carried out by agents (entrepreneurs/debtors) in financial contracts is usually in the form of moral hazard and adverse selection. More comprehensively Zahrah (1999) in Sumiyanto (2005) stated that the factors that cause financing for profit sharing are less attractive to Islamic banks include: First, sources of Islamic bank funds that are mostly short-term cannot be used to finance profit sharing-based financing that usually long term. Second, entrepreneurs with businesses that have high-profit levels tend to be reluctant to use the profit-sharing system, because entrepreneurs assume that credit using the interest system is more profitable with a certain amount of calculation so that generally many who apply for profit-sharing financing are businesses with relatively low profit. Third, entrepreneurs with low-risk businesses are reluctant to ask for profit sharing, most entrepreneurs who choose profit-sharing financing are those who do business with high risk, including those who have just entered the business world. Fourth, to convince the bank that the project will provide high profits and encourage entrepreneurs to make business projections that are too optimistic. Fifth, for many entrepreneurs who have two books, the books given to banks are those with small profit levels so that the portion of profits that must be given to the bank is also small even though the bookkeeping is actually a big profit.

Besides, the problem of low profit-sharing financing by banking experts (Chapra, 2000; Iqbal and Llewllyn, 2002; Mulyawan, 2001; Al-Jarhi, 2002; Parinduri, 2003; Algaoud and Lewis, 2003) in Ascarya (2005) is caused by several factors, including:

a. Internal Sharia Bank
    1. Quality of Human Resources (SDI) has not been sufficient to handle profit sharing projects.
    2. Islamic banks have not been able to bear big risks.
    3. Islamic banks overly prioritize business orientation and benefits such as business institutions in general.
    4. Adverse Selection, because of Asymmetric Information between the two parties.
    5. The absence of a Personal Guarantee and Collateral for customers.
    6. Increased information costs, especially for *mudharabah* financing.
    7. Limitations of the role of banks as investors, especially for *mudharabah* financing.
b. Islamic bank customers
    1. Some customers are already accustomed to the bank's interest system.
    2. Moral hazard, because employers are reluctant to submit financial statements/actual benefits to avoid taxes or profit-sharing.
    3. Low demand for profit sharing-based financing.
c. Regulation
    1. Lack of support from regulators, because it does not carry out initiatives to make regulatory and institutional changes necessary to support the operation of the Islamic banking system properly.
    2. The absence of supporting institutions to encourage the use of profit sharing.
    3. The absence of uniform operating procedures.
d. Government
    1. There is no common understanding in sharia rules and supporting projects that encourage the use of profit-sharing for government projects.
    2. The imposition of an unfair tax on profits as tax objects, while interest is tax-free.
    3. The secondary market for Islamic financial instruments does not yet exist, so banks have difficulty in channeling or obtaining access to liquidity according to sharia.
    4. Property rights are not yet clear, because PLS financing requires clear ownership rights and apply efficiently.

Based on Prasetyo and Burhan's (2013) research, the problem of the low financing of profit-sharing in his research eventually converged on three main issues from several aspects namely internal banking, customers, and regulation.

The internal problem is the lack of quality of SDI in Islamic banking; the external problem is the number of principals agents (adverse selection and moral hazard), and the last problem is the lack of supporting regulations. Another problem that needs to be addressed is the aspect of government and other institutions, namely the problem of lack of government support and related institutions that are overall helping to advance the financing of these results. Meanwhile, Harahap (2007) stated that the first obstacle that will confront Islamic banking in the future lies in the system, which is still strong capitalist hegemony. The second obstacle is the matter of HR, especially the existence of a very real dichotomy between academics and practitioners. Another obstacle according to Harahap (2007) is the lack of government support for Islamic banking, only Bank Indonesia seems to support by formed sharia banking directorates.

7. Quo Vadis, Islamic Banking?

Admittedly, Islamic banks in Indonesia tend to prefer financing with relatively low risk. The dominance of *murabahah* financing compared to other financing schemes actually proves the assumptions that rationally, to maintain profitability and efficiency as well as risk management of financing Islamic banks will tend to maximize financing with a *murabahah* contract compared to other contracts (Saparie, 2017). In other words, Islamic banking is still pragmatic even though more than that, Islamic banking should also prioritize the pleasure factor of God, namely "*Falah*" meaning the overall welfare of society.

The fact that Islamic banking is not thick with its shari'a characteristics because profit sharing-based products are not dominant on the one hand, and on the other hand the Islamic banking financing portfolio is dominated by margin-based products that still contain weaknesses, considering that some aspects of its implementation are not yet following Islamic *fiqh*. So, this condition invites questions, where are Islamic banks going? This rhetorical question should be a reflection of all relevant parties and then find a solution.

The financing portfolio of Islamic banks has been dominated by *murabahah* contracts, but unfortunately, the implementation in the *fiqh* aspect is not perfect. On the other hand, profit sharing-based financing such as *mudharabah* and *musyarakah* requires a lot of support to improve it, support from the Government, Islamic banking itself, and the wider community.

8. How to Increase Profit Sharing-Based Financing?

Various approaches are put forward by experts to increase the portfolio of profit sharing-based financing. The author summarizes the approach into 4 (four) topics summarized in 2 (two) main points, namely:

1) Efforts originating from the Government; This effort is divided into two main things, namely efforts in the form of support from the government in the form of the availability of supporting institutions and regulations that are conducive to increasing the portfolio of profit sharing-based financing.
2) Efforts from Islamic banking itself in the form of increasing the quantity and quality of Human Resources in the form of massive but highly selective recruitment and providing training to increase understanding of the concept of Islamic sharia and sharia banking practices in a professional manner.

Efforts originating from the Government in the form of supporting institutions refer to the opinion of Imaduddin (2005) which states that the development of profit-sharing products can be through cooperation with other parties in taking risks, including a guarantor institution that has credibility and trustworthiness in backing up businesses that run with a *musyarakah* and *mudharabah* system. This is in line with the statement of Sumiyanto (2005) in explaining models to reduce the risk of asymmetric information related to Presley & Session's higher stake of net worth, namely the use of the guarantor and the use of the parties to take over the debt. The use of the guarantor because often banks as fund owners do not know the character of the prospective *mudharib* closely, therefore the bank can request that the prospective *mudharib* provide the guarantor who knows the prospective *mudharib*, and is willing to be a guarantor of the prospective *mudharib* character risk. The use of the party taking over the debt because in some cases, the guarantor is willing to take over the obligations of the prospective *mudharib* if there is a loss caused by the character risk of the prospective *mudharib*. According to the author, the guarantor and the debt taker should be formed by the Government so as not to burden prospective customers and Islamic banks.

Besides, related models to reduce the risk of asymmetric information in the aspect of Unobservable Cash Flow from Presley & Session, Sumiyanto (2005) explained that to encourage an increase in the portfolio of profit sharing-based financing, an independent institution in charge of monitoring is needed. This is needed for several reasons. First, random monitoring or sudden inspection because the cash flow *mudharib* business cannot be known transparently by the fund owner. This method is usually applied to; (1) businesses whose business scale is not large enough to be monitored periodically, (2) a seasonal or short-term business. Second, periodic monitoring. In this method, *mudharib* is encouraged to prepare periodic reports on businesses financed by *mudharabah* funds. Third, involving third parties as auditors who will check the accuracy of their financial statements. According to the author, the party conducting the monitoring and audit should come from the guarantor institution formed by the Government as described above.

Efforts sourced from the Government in the form of regulations that profit sharing-based financing portfolios must be more than non-profit sharing financing portfolio. At the initial stage, the urge to comply with the regulation can be in the form of incentives, as stated by Antonio (2015) that regulators such as BI or OJK can provide incentives such as the minimum statutory demand for banks that carry out *mudharabah* financing for a percentage of total financing. This kind of effort is a voluntary effort with the lure of incentives so that no sanctions are applied. According to the author, in addition to being an incentive, the urge to increase the portfolio of profit sharing-based financing in the next stage must be increased to be compulsory so that if not implemented, sanctions will be imposed. This obligation can be in the form of a requirement for a portfolio of profit-based financing above 50%. If not reached, the bank will be subject to sanctions in the form of fines. This kind of effort is a mandatory effort that must be followed by sanctions to be obeyed.

Efforts from Islamic banking itself are in the form of increasing the quantity and quality of Islamic bank human resources (Ascarya, 2005). Increasing the quantity of SDI is done through massive but very selective recruitment. The improvement of the quality of SDI is carried out through good training which aims to increase understanding of Islamic law as well as those that enhance professionalism in the management of Islamic banking business. This is done so that the sharia banking managers have the awareness that the most important orientation of Islamic banking is the welfare of society as a whole (Falah), then profit, also has creativity and innovation in terms of product development that is attractive, applicable and simple (Ascarya, 2005) and having the spirit of entrepreneurship means that they must also have the spirit of entrepreneurs who dare to take risks according to their capabilities (Imaduddin, 2005).

The efforts of the following internal Islamic banking are in the form of the implementation of the concept of prudential banking as described by Sumiyanto (2005) regarding models to reduce the risk of asymmetric information from Presley & Session in the form of the higher stake in net worth. Related to this; (1) determination of practice: applicable conditions if the portion of mudarib capital in a business is higher, the incentive to act dishonestly will be significantly reduced, because the employer will also bear the loss for his actions. (2) the determination of collateral in the form of fixed assets will also prevent mudarib from committing fraud because the guarantee that has been given is the price of the behavior deviation (character risk).

Sumiyanto (2005) also explained models to reduce the risk of asymmetric information from Presley & Session, namely lower operating risk aspects. In practice the conditions that can be applied are; Determination of the ratio of the maximum fixed assets to total assets, this is intended so that *mudharabah* funds are not used to invest in fixed assets in excess. Related to this, Sumiyanto (2005) also explained the model to reduce the risk of asymmetric information from Presley & Session, namely the non-controllable cost aspects, in practice the conditions applied were; (1) revenue sharing, this method is carried out to reduce the occurrence of disputes, especially over costs incurred. (2) determining the minimum profit margin; this method is done to anticipate an indication that *mudharib* is more concerned with large sales volume at the expense of the profit margin level so that it can harm the bank as the owner of the funds.

The implementation of prudential banking related to profit sharing-based financing was also stated by Muhammad (2005) which states that the application of risk management can be initiated by screening (screening) of prospective customers and projects financed because Islamic bank financing management is closely related to the risk of customer character and project to be financed. According to Muhammad (2005), the risk of customer character can be seen from aspects; (1) skill factors, including the familiarity of the market, being able to correct business risks, being able to do sustainable business, able to articulate business language. (2) reputation factors, including track record both as employees, recommended trusted sources, have a business guarantee. (3) origin factor, including having a family relationship or friendship with investors, as a successful businessman, coming from a respected social class. Meanwhile, the risks to the project or business occur because; first, the possibility of business bankruptcy, and the second is the guarantee given by the customer for the amount of financing received. According to the author, the screening activity should be carried out by the guarantor institution formed by the Government as described above.

9. Conclusion

The low portfolio of profit sharing-based financing is a weakness of Islamic banking. This condition eliminates the main characteristic of Islamic banking, namely profit sharing. The dominance of non-profit sharing-based financing, on the one hand, implies problems in its implementation, and efforts to increase profit sharing-based financing on the other hand face many obstacles. This condition is a problem faced by Islamic banking today. Therefore, various efforts are needed to overcome the problem.

The efforts that the author proposes largely come from the opinions of experts and a small part comes from the opinions of the author. These efforts are divided into two major groups as follows: 1) Efforts originating from the Government; this effort is divided into two main things, namely efforts in the form of support from the government in the form of availability of supporting institutions and conducive regulations. Supporting institutions consist of two types, namely the guarantor institution to reduce information asymmetry which functions to screen, monitor, and audit, and the debt taking the institution to overcome the problematic financing. Efforts to encourage compliance with conducive regulations can be voluntary, which is lured by incentives in the early stages and at a later stage must be mandatory and encouraged by the implementation of sanctions. 2) Efforts from Islamic banking themselves in the form of increasing the quantity and quality of human resources. This is done through massive but highly selective recruitment and in the form of providing training to improve SDI understanding of the concept of Islamic sharia and improve professionalism in sharia banking business practices.

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Note

Note 1. A buying and selling activity carried out by someone who needs liquidity.