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CAPTURING REGULATION ON ISLAMIC BANKING FINANCE IN INDONESIA

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Abstract

This article discusses about the regulation on Islamic Banking finance in Indonesia. The regulation of Islamic banking finance in Indonesia is a multifaceted issue that encompasses compliance with Sharia principles, the role of supervisory bodies, and the evolving landscape of digital banking. By legal research method, this article tried to understand is there any problem with regulation on Islamic Banking finance in Indonesia. As a results, The Sharia Supervisory Board (SSB or *Dewan Pengawas Syariah*/DPS) is pivotal in ensuring that Islamic banks adhere to Islamic law, influencing operational compliance through rigorous evaluation of products and services. Additionally, the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK) plays a crucial role in overseeing Islamic banks, particularly in managing customer fund loss and ensuring adherence to regulatory standards. The regulatory framework also extends to Islamic microfinance, which is essential for providing financial access to underserved populations, yet faces challenges in compliance and management. Furthermore, the rise of digital Islamic banks necessitates robust regulations to protect consumers and ensure compliance with existing laws. In contrast, while the regulatory framework aims to enhance the stability and growth of Islamic banking, challenges remain in the effective implementation and enforcement of these regulations, which can hinder the sector's potential.

Keywords: *Regulation; Islamic Banking Finance; Indonesia*

I. INTRODUCTION

The challenges faced by Islamic banking finance in Indonesia are multifaceted, stemming from regulatory, operational, and competitive issues. Despite the rapid growth of this sector, significant obstacles hinder its sustainability and customer satisfaction. Some problems are raised up, such as;[1] a) Legal Protection and dispute resolution. Legal frameworks, such as Law Number 21 of 2008, provide a basis for sharia banking; however, practical application is often inadequate. Customers face challenges in resolving disputes due to limited

[1] Annisa Danti Avrilia Ningrum, Surya Hamdani, and Mutiara Nauli, "Perlindungan Hukum Terhadap Nasabah Perbankan Syariah Dalam Kasus Pembiayaan Bermasalah," *Jurnal Manajemen Dan Pemasaran (JUMPER)* 3, no. 1 (2024): 379–84, https://doi.org/10.51771/jumper.v3i1.1144.

mechanisms and perceived inefficiencies in sharia arbitration institutions. Low customer satisfaction regarding legal protection exacerbates trust issues within the sector.

b). Regulatory challenges. Constantly changing regulations create uncertainty, impacting the sustainability of Islamic banks' business models. Compliance with capital requirements and sharia principles remains a significant hurdle for institutions like Bank Syariah Indonesia (BSI);[2] c). Competition and market access. Islamic banks face increasing competition from conventional banks offering sharia-compliant products, complicating market share acquisition. Accessing global Islamic financial products poses challenges due to a lack of understanding and integration into the global market.[3]

d). Lack of standardization. Differences in sharia interpretations create inconsistencies in product offerings. No uniform regulatory framework across financial institutions, leading to inefficiencies; e). Limited skilled human resources.[4] A shortage of banking professionals with expertise in both finance and Islamic law. Training and education programs for Islamic banking professionals need improvement; f). Public perception and awareness. Many Indonesians still perceive Islamic banking as being less profitable or more complicated than conventional banking. Need for better education and promotion of Islamic finance benefits; g). Competition from conventional banks. Conventional banks often provide more attractive interest rates and incentives. Some conventional banks offer "Sharia-compliant" products, reducing the customer base for fully Islamic banks. In contrast, some argue that the growth of Islamic banking in Indonesia presents opportunities for innovation and collaboration, potentially leading to a more robust financial sector that can better serve the community's needs.[5]

Of course, this potential is not just an opinion. Because Indonesia is a country with a majority Muslim population.[6] So, the potential in the Islamic banking finance sector is very high. However, the transaction portion in this sector needs attention.[7] So that, this article is very important to figure out how the regulation perhaps get a high-impact in Islamic banking finance. To display the novelty, this paper analyzed the research-gap with another previous research in the same or similar topic. *First,* paper written by Ichwan Ahnaz Alamudi and Ahmadi Hasan that focused on how legislators issued any regulation regarding Islamic finance is based on Indonesian Muslim as majority.[8] If here is a need, the legislator would do it. It is very different with this paper because this paper captured regulations on Islamic banking finance and the challenge or opportunities on it.

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[2] Nana Karlina Panjaitan, Nurbaiti Nurbaiti, and Aqwa Naser Daulay, "Analysis of Financial Regulatory Challenges for the Development of Islamic Banking in Indonesia," *Journal La Sociale* 5, no. 5 (July 8, 2024): 1346–57, https://doi.org/10.37899/JOURNAL-LA-SOCIALE.V5I5.1383.

[3] Novi Yanti et al., "DEVELOPMENT AND CHALLENGES OF SHARIA BANKING IN INDONESIA IN THE GLOBAL FINANCIAL CONTEXT," *Mu'amalatuna: Jurnal Ekonomi Syariah* 7, no. 1 (June 1, 2024): 28–40, https://doi.org/10.36269/MUAMALATUNA.V7I1.2510.

[4] Sholahuddin Al-Fatih, "Strengthening Baznas As the Society'S Trusted Zakat Agency To Increase the Welfare of Ummah," *Jurisdictie: Jurnal Hukum Dan Syariah* 11, no. 1 (June 3, 2020): 106–24, https://doi.org/10.18860/j.v11i1.7841.

[5] Wiwi Widia Argita et al., "Problematika Dan Perkembangan Perbankan Syariah Di Indonesia Dalam Era Globalisasi," *SANTRI : Jurnal Ekonomi Dan Keuangan Islam* 1, no. 6 (November 17, 2023): 251–59, https://doi.org/10.61132/SANTRI.V1I6.126.

[6] Fitria Esfandiari et al., "Pendampingan Akad Dan Sertifikasi Halal MUI Serta Edukasi Jaminan Produk Halal Pada Minuman Cangloh Di Mergosono Kota Malang," *Jurnal Dedikasi Hukum* 1, no. 2 (2021): 87–99, https://doi.org/10.22219/jdh.v1i2.17607.

[7] Ichwan Ahnaz Alamudi and Ahmadi Hasan, "Politik Hukum Pembentukan Legislasi Bidang Ekonomi Syariah Di Indonesia," *Journal of Islamic and Law Studies* 5, no. 1 (May 2021), https://doi.org/10.18592/jils.v5i1.4749.

[8] Alamudi and Hasan.

Second, research by Andrew Shandy Utama that found,[9] the Indonesian Council of Ulama began the push to establish an Islamic bank in Indonesia in 1990, and it was realised with the foundation of Bank Muamalat Indonesia on November 1, 1991. The government responded rapidly to the early establishment of Islamic banking in the national financial system by enacting Act No. 7 of 1992 on Banking, which was later amended by Law No. 10 of 1998. In addition to devastating the national banking sector, the 1998 economic crisis served as the catalyst for the establishment of Islamic banking in Indonesia. Some conventional banks began to diversify their operations by forming Islamic banks. In response to the growth of major Islamic banking in the national financial system, Law Number 21 of 2008 on Islamic Banking was passed on July 16, 2008, serving as the legal foundation for Islamic banks in Indonesia. Andrew focused on the history of Islamic banking institution and later about the regulation for Islamic bank.

Third, M. Shabri Abd. Majid found that the Islamic banking legislative frameworks have had a substantial and positive impact on the development of the Islamic banking industry. Malaysia's Islamic banking business has grown faster than Indonesia's. This is due in part to the more thorough Islamic banking laws imposed in Malaysia as opposed to Indonesia. This indicates that, in order to accelerate the development and sustainability of Indonesia's Islamic banking industry, the government must establish appropriate Islamic banking-related rules. Shabri focused on the comparative studies between Indonesia and Malaysia. So, it is different with this paper that only focused in Indonesia. Thus, this article will exercise a problem related to the Islamic banking finance and it is relation to the regulation. The regulation that captured out in this article, hopefully not only in the primary legislation, but also secondary legislation (if any).

II. RESEARCH METHOD

This research employs a legal research approach[10] to analyze the regulatory framework governing Islamic banking finance in Indonesia. The research will utilize doctrinal legal research and empirical analysis[11] to understand the effectiveness, challenges, and implications of current regulations. The study adopts a descriptive and analytical design, focusing on primary and secondary data sources. Legal documents, government regulations, and policies related to Islamic banking in Indonesia will be examined. Data collected (with AI tools, such as; ChatGPT, typeset.io, perplexity.ai, Quillbot, Grammarly, and Mendeley) using secondary documents, such as analysis of laws, fatwas, government regulations, journal articles, and reports from financial institutions such as Bank Indonesia and the Financial Services Authority (OJK).

Then, data analyzed by content analysis.[12] This approach will be used to examine regulatory frameworks, their effectiveness, and their impact on the Islamic banking sector. Comparative analysis with regulatory models from other countries will also be conducted to identify best practices. Thus, triangulation will be applied by cross-verifying data from legal

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[9] Andrew Shandy Utama, "Sejarah Dan Perkembangan Regulasi Mengenai Perbankan Syariah Dalam Sistem Hukum Nasional Di Indonesia," *Jurnal Wawasan Yuridika* 2, no. 2 (October 1, 2018): 187–200, https://doi.org/10.25072/JWY.V2I2.180.

[10] Sholahuddin Al-Fatih, *Perkembangan Metode Penelitian Hukum Di Indonesia*, 1st ed., vol. 1 (Malang: UMM Press, 2023), https://books.google.co.id/books/about/Perkembangan_Metode_Penelitian_Hukum_di.html?id=EObiEAAAQBAJ&redir_esc=y.

[11] Sholahuddin Al-Fatih and Ahmad Siboy, *Menulis Artikel Karya Ilmiah Hukum Di Jurnal Nasional Dan Internasional Bereputasi* (Malang: Inteligensia Media, 2021).

[12] Tunggul Ansari Setia Negara, "Normative Legal Research in Indonesia: Its Originis and Approaches," *Audito Comparative Law Journal (ACLJ)* 4, no. 1 (February 2023): 1–9, https://doi.org/10.22219/aclj.v4i1.24855.

documents, and financial reports to ensure accuracy and reliability. All data will be collected ethically, ensuring confidentiality and compliance with academic research standards. This methodology ensures a comprehensive understanding of how regulations shape the development of Islamic banking in Indonesia.

III. RESULTS AND DISCUSSION

A. The Problem of Islamic Banking Finance in Indonesia

Islamic banking in Indonesia maintains a distinct yet precarious position in the country's financial landscape. Despite having the world's largest Muslim population, Indonesia's Islamic banking market share remains shockingly low—around 7-10% when compared to conventional banks.[13] This disparity highlights a multifaceted issue: while there is significant potential given the population's demographics and religious beliefs, Islamic financial institutions face challenges such as limited product diversity, fragmented regulatory oversight, and insufficient public awareness. The promise of a sharia-compliant financial system is sometimes compromised by structural problems, such as a dual banking framework with different regulatory regimes for Islamic and conventional banks.

As mentioned above, Islamic banking in Indonesia faces a multifaceted array of challenges that impede its potential to more significantly contribute to the nation's economy.[14] One primary issue is the relatively low level of public understanding and acceptance of Islamic financial products.[15] Despite Indonesia having the largest Muslim population in the world, Islamic banking institutions and principles remain novel to many, particularly within the Micro, Small, and Medium Enterprises (MSME) sector.[16] This lack of familiarity contributes to a hesitancy in adopting Islamic financial services, especially when compared to conventional banking options. Furthermore, low levels of Islamic financial literacy create a substantial barrier to increasing Islamic financial inclusion,[17] as individuals may not fully grasp the benefits and ethical underpinnings of Sharia-compliant finance6. Another critical problem lies in the limited accessibility of Islamic financial services, particularly in rural areas and the eastern regions of Indonesia.[18]

The uneven distribution of Islamic banking infrastructure hinders the fulfillment of Islamic financial needs, especially for financial transactions related to religious activities such

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[13] Early Ridho Kismawadi, "Contribution of Islamic Banks and Macroeconomic Variables to Economic Growth in Developing Countries: Vector Error Correction Model Approach (VECM)," *Journal of Islamic Accounting and Business Research* 15, no. 2 (February 6, 2024): 306–26, https://doi.org/10.1108/JIABR-03-2022-0090/FULL/PDF.

[14] Faizi Faizi, "How Are Islamic Banking Products Developed? Evidence from Emerging Country," *Cogent Economics and Finance* 12, no. 1 (2024), https://doi.org/10.1080/23322039.2024.2378961.

[15] Sarimah Basah and Putri Rozita Tahir, "Towards Acceptance of Islamic Wealth Management," *Journal of Islamic, Social, Economics and Development (JISED)* 4, no. 24 (2019): 14–21.

[16] Muhammad Bagus Boy Saputra et al., "The Roles of Local Governments in Accommodating the Registration of SME's Product Trademarks," *Amnesti Jurnal Hukum* 3, no. 1 (2021): 53–59, https://doi.org/10.37729/amnesti.v3i1.1227.

[17] Ichwan and Rahmatina A. Kasri, "Why Are Youth Intent on Investing Through Peer To Peer Lending? Evidence From Indonesia," *Journal of Islamic Monetary Economics and Finance* 5, no. 4 (2019): 741–62, https://doi.org/10.21098/jimf.v5i4.1157.

[18] FEB UGM, "Indonesia's Islamic Financial Inclusion Still Low," FEB UGM, 2024, https://feb.ugm.ac.id/en/news/4848-indonesia-s-islamic-financial-inclusion-still-low.

as Hajj, Umrah, Qurban, Zakat, Infaq, Sadaqah, and Waqf.[19] This geographical disparity poses a significant challenge to the broader development of the Islamic economy in Indonesia, as a substantial portion of the population lacks convenient access to Sharia-compliant financial solutions. Moreover, community leaders and religious figures,[20] who could play a pivotal role in promoting Islamic finance, often need more support and resources to effectively recommend these services to the public. This necessitates a more concerted effort to engage and empower these key influencers to advocate for Islamic financial inclusion within their communities. The issue is compounded by the historical context of Islamic banking in Indonesia, which faced political, legal, and social obstacles during its initial establishment.[21] These early challenges resulted in a delayed and fragmented development, leaving the Islamic banking sector struggling to compete with the deeply entrenched conventional banking system.

In addition to the challenges related to awareness and accessibility, the Islamic banking sector in Indonesia grapples with internal constraints that affect its competitiveness and efficiency. A significant issue is the lack of differentiation in business models among Islamic banks, which often mimic conventional banking practices without fully embracing the unique principles and values of Islamic finance. This lack of distinctiveness can lead to customer confusion and a perception that Islamic banking offers little more than a superficial adherence to Sharia principles. Moreover, suboptimal human resources, both in terms of quality and quantity, hinder the growth and innovation of the Islamic banking industry.[22] A shortage of skilled professionals with a deep understanding of Islamic finance principles and modern banking practices limits the sector's ability to develop and deliver innovative products and services.[23]

This skills gap necessitates targeted training and development programs to cultivate a new generation of Islamic finance experts who can drive the industry forward. Regulatory and policy challenges also pose significant impediments to the development of Islamic banking in Indonesia.[24] While the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK) has launched initiatives and roadmaps to strengthen the Islamic banking sector, the implementation and enforcement of these regulations can be inconsistent and cumbersome. Complex licensing procedures and a lack of clarity in Sharia compliance standards can deter investment and innovation in the industry. Furthermore, the legal framework governing Islamic finance needs to be continuously updated to address emerging issues and ensure alignment with global best practices.[25] Without a robust and transparent regulatory environment, Islamic banking in

[19] Bello Ali and Salihu Lawal, “Mapping the Intersections: History, Religion, Culture, Governance and Economics in Taraba North Senatorial Zone, Nigeria,” *Bulletin of Islamic Research* 2, no. 4 (July 2024): 525–56, https://doi.org/10.69526/bir.v2i4.55.

[20] Akhmad Sirojudin Munir, “Strategi Pemasaran Dan Peran Kiai Dalam Peningkatan Jumlah Nasabah BMT Sunan Drajat Lamongan,” *JOURNAL OF SHARIA ECONOMICS* 6, no. 1 (July 14, 2024): 287–98, https://doi.org/10.35896/JSE.V6I1.620.

[21] Mutiara Dwi Sari, Zakaria Bahari, and Zahri Hamat, “History of Islamic Bank in Indonesia: Issues Behind Its Establishment,” *International Journal of Finance and Banking Research* 2, no. 5 (September 6, 2016): 178–84, https://doi.org/10.11648/J.IJFBR.20160205.13.

[22] Widia Argita et al., “Problematika Dan Perkembangan Perbankan Syariah Di Indonesia Dalam Era Globalisasi.”

[23] Yanti et al., “DEVELOPMENT AND CHALLENGES OF SHARIA BANKING IN INDONESIA IN THE GLOBAL FINANCIAL CONTEXT.”

[24] Annisa Salsabila Safiah, Nadiah Rabbaniah, and Muhammad Misbakhul Munir, “THE POTENTIAL OF ISLAMIC BANKING IN THE INDONESIAN ECONOMY,” *Neraca: Jurnal Ekonomi, Manajemen Dan Akuntansi* 2, no. 2 (January 18, 2024): 319–23, https://doi.org/10.572349/NERACA.V2I2.933.

[25] Fika Fitriasari, “The Growth of Islamic Banking in Indonesia,” *Jurnal Ekonomika Bisnis* 03, no. 01 (2013): 1–10, https://doi.org/10.22219/jekobisnis.v3i1.2222.

Indonesia will struggle to achieve its full potential and compete effectively with conventional finance.

To fully capitalize on the potential of Islamic banking in Indonesia, it is crucial to address these multifaceted challenges through coordinated and comprehensive strategies. Increasing public awareness and literacy regarding Islamic finance is paramount, requiring targeted education campaigns and community outreach programs. Improving the accessibility of Islamic financial services, particularly in underserved regions, necessitates expanding the branch network and leveraging digital technologies to reach a wider customer base6. Empowering community leaders and religious figures to promote Islamic finance can be achieved through training programs and the provision of educational resources. Furthermore, fostering innovation and differentiation in Islamic banking products and services is essential to attract and retain customers. This requires a shift away from mimicking conventional banking models and towards developing unique Sharia-compliant solutions that meet the specific needs of the Indonesian market.[26] Investing in human capital development through targeted training programs and scholarships will help address the skills gap and cultivate a new generation of Islamic finance professionals.

At least, streamlining and strengthening the regulatory framework governing Islamic banking is crucial to create a level playing field and attract investment. This includes clarifying Sharia compliance standards, simplifying licensing procedures, and ensuring consistent enforcement of regulations. By addressing these challenges and implementing these strategies, Indonesia can unlock the full potential of Islamic banking to promote financial inclusion, support SME growth, and contribute to the overall economic development of the nation. The merger of state-owned Islamic banks into Bank Syariah Indonesia (BSI) in 2021 represents a positive step towards creating a more competitive and robust Islamic banking sector.[27] However, sustained efforts and collaboration among stakeholders are essential to overcome the remaining obstacles and realize the vision of a thriving and inclusive Islamic financial system in Indonesia.

The issues confronting Islamic banking in Indonesia are both legislative and practical.[28] On the regulatory front, there is a wide disparity in the interpretation and execution of Sharia principles across organizations. This fragmentation causes each bank's Sharia Supervisory Board to adopt different approaches, often resorting to "fatwa shopping" in order to legitimize items that closely resemble conventional banking instruments. Such actions raise doubts about true Sharia compliance and undermine public trust in the institution. Furthermore, the dual banking system complicates issues because Islamic banks sometimes face rigorous capital requirements and liquidity management limits in the absence of a functioning Islamic money market. So, by this part, the author strengthened and underlined, how important regulations for Islamic banking are.

B. The Regulation of Islamic Banking Finance in Indonesia: Is It Relevant?

In Indonesia, Islamic banking finance is regulated using a combination of Islamic principles (Sharia) and national financial legislation. The primary regulatory authorities

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[26] Mohammad Zahrudin Sahri, "Persamaan Dan Perbedaan Bank Konvensional Dengan Bank Syariah," *JIBEMA: Jurnal Ilmu Bisnis, Ekonomi, Manajemen, Dan Akuntansi* 2, no. 1 (July 14, 2024): 50–66, https://doi.org/10.62421/JIBEMA.V2I1.57.

[27] Alif Ulfa, "Dampak Penggabungan Tiga Bank Syariah Di Indonesia," *Jurnal Ilmiah Ekonomi Islam* 7, no. 2 (July 5, 2021): 1101–6, https://doi.org/10.29040/JIEI.V7I2.2680.

[28] Sri Hariati, Musakir Salat, and Ita Surayya, "Perlindungan Hukum Bagi Nasabah Perbankan Syariah Di Indonesia," *Jurnal Risalah Kenotariatan* 5, no. 2 (October 15, 2024): 341–61, https://doi.org/10.29303/RISALAHKENOTARIATAN.V5I2.255.

supervising Islamic banking are Bank Indonesia (BI), the Financial Services Authority (Otoritas Jasa Keuangan - OJK), and the National Sharia Board (Dewan Syariah Nasional - DSN-MUI).[29] However, the primary legislation is based on Law No. 21 of 2008 on Islamic Banking, which provides the legal foundation for the establishment, operation, and supervision of Islamic banks. According to OJK and BPK website, there are some regulations related to the Islamic banking in Indonesia.[30]

Table 1. Islamic Banking Regulations in Indonesia

No.	Regulation	Type
1.	Law Number 6 of 2023 concerning the Stipulation of Government Regulations in Lieu of Law Number 2 of 2022 concerning Job Creation into Law	Primary Legislation
2.	Law Number 4 of 2023 concerning Development and Strengthening of the Financial Sector	Primary Legislation
3.	Law Number 21 of 2008 concerning Sharia Banking	Primary Legislation
4.	POJK Number 64/POJK.03/2016 concerning Changes in Business Activities of Conventional Banks to Sharia Banks	Secondary Legislation
5.	Bank Indonesia Circular Letter Number 15/51/DPbS dated 30 December 2013 concerning Amendments to Bank Indonesia Circular Letter Number 11/28/DPbS dated 5 October 2009 concerning Sharia Business Units	Secondary Legislation
6.	Bank Indonesia Circular Letter Number 15/50/DPbS dated 30 December 2013 concerning Amendments to Bank Indonesia Circular Letter No. 11/9/DPbS dated 7 April 2009 concerning Sharia Commercial Banks	Secondary Legislation
7.	Bank Indonesia Regulation Number 15/13/PBI/2013 concerning Amendments to Bank Indonesia Regulation Number 11/3/PBI/2009 concerning Sharia Commercial Banks	Secondary Legislation
8.	Bank Indonesia Regulation Number 15/14/PBI/2013 concerning Amendments to Bank Indonesia Regulation Number 11/10/PBI/2009 concerning Sharia Business Units	Secondary Legislation
9.	Bank Indonesia Circular Letter Number 15/44/DPbS dated 22 October 2013 concerning Sharia Short Term Funding Facilities for Sharia Commercial Banks	Secondary Legislation
10	Bank Indonesia Circular Letter Number 15/26/DPbS concerning Implementation of Indonesian Sharia Banking Accounting Guidelines	Secondary Legislation

[29] Ferri Sadillah Harahap, Nurnasrina, and Syahfawi, "IMPLIKASI PERAN DAN FUNGSI PENGAWASAN BANK SYARIAH DI INDONESIA PASCA UU NO. 21 TAHUN 2011," *Jurnal El Rayyan: Jurnal Perbankan Syariah* 3, no. 1 (April 28, 2024): 1–10, https://doi.org/10.59342/JER.V3I1.486.
[30] OJK, "Regulasi Perbankan Syariah," OJK, accessed February 11, 2025, https://ojk.go.id/id/kanal/perbankan/regulasi/regulasi-perbankan-syariah/default.aspx.

11.	Bank Indonesia Circular Letter Number 15/22/DPbS dated 27 June 2013 concerning Guidelines for Implementing the Duties and Responsibilities of the Sharia Supervisory Board of Sharia Rural Banks	Secondary Legislation
12.	Bank Indonesia Circular Letter Number 15/8/DPbS dated 27 March 2013 concerning the Opening of Sharia Commercial Bank Office Networks and Sharia Business Units Based on Core Capital	Secondary Legislation
13.	Bank Indonesia Regulation Number 14/20/PBI/2012 dated 17 December 2012 concerning Amendments to Bank Indonesia Regulation Number 11/24/PBI/2009 concerning Sharia Short-Term Funding Facilities for Sharia Commercial Banks	Secondary Legislation

Source: Author, 2025 (edited)

Based on regulatory documents on the OJK website (as some have mentioned in table 1 above), there are 83 more secondary pieces of legislation in the form of Bank Indonesia regulations and Bank Indonesia Circular Letters issued from 2004 to 2011. The author did not mention and write them all in the table because it would take up quite a lot of pages in this article. The question is, why there were too much secondary legislation issued by Bank Indonesia as well as Regulation and Circular Letters or POJK? How about Government Regulation or Presidential Decrees? Because this delegate is directly given through Law Number 21 of 2008 concerning Sharia Banking. Delegation power is the highest power in legal drafting practice.[31] In fact, the question is, why did the Bank Indonesia Circular Letter and POJK issued regarding Islamic banking regulation. Both probably didn't have any delegation power.

To address the regulatory issues in Islamic banking in Indonesia, a multifaceted approach is necessary. This involves revising existing regulations to enhance the sustainability and operational efficiency of Islamic banks, ensuring compliance with Sharia principles, and promoting financial inclusion, particularly for micro, small, and medium-sized enterprises (MSMEs). Moreover, it is important to simplified the regulations because of current complex regulations hinder the adaptability of Islamic banks. Streamlining these regulations can foster innovation and sustainability.[32] The government also need to issued regulation related to the incentives for compliance. Providing incentives for Islamic banks to meet capital requirements and diversify products can enhance their operational capabilities.[33]

Furthermore, Islamic banking in Indonesia played by several key-actors, such as the Government, Bank Indonesia, OJK and Sharia Supervisory Board (SSB). In the forthcoming regulations, the Government should strengthen the role of OJK and SSB. The Financial Services Authority (OJK) must enhance its supervisory role to ensure compliance with Sharia principles and protect customer funds. Regular inspections and clear guidelines are essential.[34] Then, the most important also, strengthening the qualifications and training of SSB members

[31] Sholahuddin Al-Fatih et al., "Rethinking Delegated Legislation in the Indonesian Legal System," *Jurnal Hukum Novelty* 14, no. 2 (December 27, 2023): 240–51, https://doi.org/10.26555/novelty.v14i2.a27517.
[32] Panjaitan, Nurbaiti, and Daulay, "Analysis of Financial Regulatory Challenges for the Development of Islamic Banking in Indonesia."
[33] Panjaitan, Nurbaiti, and Daulay.
[34] Nisrina Thufailah Nasution and Zulham, "Pertanggungjawaban Bank Syari'ah Atas Kehilangan Dana Nasabah Perspektif Peraturan Otoritas Jasa Keuangan," *Legal Standing: Jurnal Ilmu Hukum* 5, no. 1 (2021): 113–22, https://doi.org/10.24269/ls.v8i1.8866.

can improve the effectiveness of Sharia compliance monitoring.[35] In line with those idea, addressing regulatory imbalances that restrict Islamic banks from serving MSMEs can improve financial access. Deregulatory policies on profit and loss sharing schemes are recommended. Simplifying the registration and taxation processes for MSMEs can encourage formalization and enhance their access to Islamic banking services.[36]

While these recommendations focus on enhancing the Islamic banking sector, it is crucial to consider the potential for over-regulation, which may stifle innovation and growth. Balancing regulation with flexibility is essential for fostering a robust Islamic banking environment in Indonesia. The author recommends that reforms be made to the Law No. 21 of 2008 on Islamic Banking, because the revised version in Job Creation Law, didn't have high-impact for the Islamic bank industry and its activities. More than that, the government needs to curb regulations related to sharia banks which are useless and have no legal basis. For example, policy regulations (*beleidsregel*) whose designation is not appropriate and actually give rise to overlapping regulations. More than that, the government needs to issue regulations that enable the Indonesian sharia banking industry to compete in the global market, especially because Indonesia is a country with a majority Muslim population, which needs a sharia banking industry.

IV. CONCLUSION

As a conclusion. this paper states that the regulations in the Indonesian Islamic banking industry is extremely growing if it is backed by proper legislation, such as the amendment of Islamic Banking Law, as well as the strengthening of the role OJK, SSB and MSMEs. The current regulations that captured by the author, dominated by secondary legislation in the type of Bank Indonesia Regulation. However, some Bank Indonesia Circular Letter and POJK also issued. The problem raised up regarding the regulatory issues, such as legal vacuum, overlap regulations and too much policy regulations. As a recommendation, the next paper or researcher should take a discussion related to the how to simplified the regulations for Islamic banking in Indonesia.

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Alamudi, Ichwan Ahnaz, and Ahmadi Hasan. "Politik Hukum Pembentukan Legislasi Bidang Ekonomi Syariah Di Indonesia." *Journal of Islamic and Law Studies* 5, no. 1 (May 2021).

[35] Zayyaan Muzakkii Maahir, Della Fathiah, and Aliesa Azahwa Faradilla, "Efektivitas Pengawasan Syariah Dalam Menjamin Kepatuhan Bank Syariah," *Maslahah : Jurnal Manajemen Dan Ekonomi Syariah* 2, no. 3 (July 22, 2024): 227–39, https://doi.org/10.59059/MASLAHAH.V2I3.1521.

[36] Adi Saifurrahman and Salina Hj Kassim, "Regulatory Issues Inhibiting the Financial Inclusion: A Case Study among Islamic Banks and MSMEs in Indonesia," *Qualitative Research in Financial Markets* 16, no. 4 (June 14, 2024): 589–617, https://doi.org/10.1108/QRFM-05-2022-0086/FULL/PDF.

https://doi.org/10.18592/jils.v5i1.4749.
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