

The Relevance of Islamic Banks in the Indonesian Economy: Responding to the Controversy About Interest and Profit Sharing

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Article Info	Abstract
Received: 2024-06-21 Revised: 2024-11-26 Accepted: 2024-12-13 Keywords: Islamic Banks, Interest, Profit Sharing, Controversy, Financing System	Islamic banks have an increasingly important role in the Indonesian economy, by offering an alternative financial system based on sharia principles, especially in terms of avoidance of <i>riba</i> (interest) and the implementation of a profit-sharing system. However, there is controversy among the public regarding the difference between interest and profit sharing that is often misinterpreted. This study aims to explore the relevance of Islamic banks in the Indonesian economy and respond to controversies related to the interest and profit sharing system. Using a qualitative approach, this study collects data through literature studies, case studies on several Islamic banks, and interviews with Islamic bank practitioners, Islamic economists, and Islamic bank customers. The results show that although Islamic banks have tried to explain the difference in principle between interest and profit sharing, there is still confusion among the public. Many customers consider the profit-sharing system to be similar to interest, especially since they involve the sharing of profits from economic transactions. Therefore, more intensive education and socialization are needed to reduce this misperception and increase public understanding of the excellence and transparency of the Islamic banking system.

1. Introduction

In recent decades, Islamic banking has become one of the fastest-growing sectors in Indonesia. With the largest Muslim population in the world, Indonesia has great potential for the development of a sharia-based financial system. However, despite this growth, there is still controversy surrounding the practice of interest in conventional banks and profit sharing in Islamic banks. This article aims to identify and analyze the relevance of

Islamic banks in the Indonesian economy as well as address the differences between interest and profit sharing that affect public perception of these two banking systems.

The development of Islamic banks in Indonesia began in 1992 with the establishment of Bank Muamalat Indonesia, which became the first Islamic bank in the country. Since then, the number of Islamic banks and Islamic business units has continued to increase. According to data from the Financial Services Authority (OJK) in 2022, the total assets of Islamic banks will reach around IDR 600 trillion, with annual growth reaching 10-15% (OJK, 2022). This growth shows that people are starting to turn to Islamic banking services, which are considered more in line with Islamic principles. In addition, the many Islamic financial products offered, such as murabahah, musharakah, and mudharabah financing, are increasingly attracting public interest in investing in this system.

The growing interest in Islamic banks is also driven by public awareness of the importance of avoiding usury, which is prohibited in Islam. According to a survey conducted by the Indonesian Association of Sharia Banks (ASBISINDO), around 60% of respondents stated that they prefer Islamic banks because of the principles of halal and transparency in transactions (ASBISINDO, 2021). This shows that Islamic banks are not only attractive to Muslims, but also to the general public who are looking for ethical and responsible financial alternatives.

Despite the increase in interest, the controversy regarding interest practices in conventional banks and profit sharing in Islamic banks remains a matter of debate. Many argue that the interest system in conventional banks can create injustice and social inequality, while the profit-sharing system in Islamic banks is considered fairer because it is based on shared risks and benefits. However, there are also those who argue that Islamic banks are not completely free from practices similar to interest, such as high administrative fees.

The purpose of this article is to provide a deeper understanding of the relevance of Islamic banks in the Indonesian economy. By identifying and analyzing the contribution of Islamic banks, it is hoped that readers can understand their important role in creating a fairer and more sustainable financial system. In addition, this article also aims to address issues surrounding interest and profit sharing, as well as their impact on public perception. Thus, it is hoped that it can provide suggestions for the development of the Islamic banking sector in Indonesia in the future.

Understanding the relevance of Islamic banks, the main question that needs to be answered is whether Islamic banks make a significant contribution to the Indonesian economy. According to a report by Bank Indonesia, the contribution of Islamic banks to total national banking assets is still relatively small, at around 6% in 2022 (Bank Indonesia, 2022). However, this contribution shows a positive upward trend. In addition, Islamic banks also play a role in financing the real sector, especially micro, small, and medium enterprises (MSMEs), which are the backbone of the Indonesian economy. The second question that needs to be answered is how the difference between interest and profit sharing affects the

public's perception of banks. Many people still have a misunderstanding of Islamic banks, thinking that the profit-sharing system is the same as interest, only in different terms. Therefore, education about the fundamental differences between these two systems is very important. Profit sharing in Islamic banks not only involves profit sharing, but also risk sharing between banks and customers, which is a basic principle in Islamic economics.

Islamic banks are financial institutions that operate based on Islamic sharia principles. In this context, Islamic banks not only function as a place to store money or institutions that provide loans, but also act as institutions that promote social and economic justice. The definition of an Islamic bank includes the aspect that every transaction made must be in accordance with Islamic law, which means that all forms of *riba*, *gharar* (uncertainty), and *maysir* (gambling) are prohibited. For example, in practice, Islamic banks offer financial products based on the principle of profit sharing such as *mudharabah* and *musyarakah*, which provide benefits for all parties involved.

The fundamental difference between Islamic banks and conventional banks lies in the way they make profits. Conventional banks generally rely on an interest system, where customers earn interest on their deposits and pay interest on the loans given. On the other hand, Islamic banks operate on the principle of profit sharing, where profits are shared between the bank and customers based on a predetermined agreement. As an illustration, in the *mudharabah* scheme, a customer can invest his funds in an Islamic bank, and the proceeds from the investment will be divided according to the agreed percentage. This creates a fairer and more transparent relationship between banks and customers, where risks and benefits are shared proportionately.

Entering the world of Islamic banking, one must understand the various products and services offered. Islamic banks provide various types of products, ranging from savings, deposits, to financing. For example, in terms of financing, Islamic banks offer home financing through a *murabahah* scheme, where banks buy properties and sell them to customers at a higher price, but with full transparency regarding fees and profit margins. This is different from conventional loans, where customers may not fully understand the fee structure charged. Thus, Islamic banks not only provide alternatives in financing, but also provide clarity and fairness in every transaction.

The marketing of Islamic bank products is also an important aspect that needs to be considered. In this context, Islamic banks must be able to clearly explain to the public the benefits and advantages of the products offered. For example, in promoting sharia savings products, banks need to emphasize that customers not only save money, but also contribute to projects that are in accordance with sharia principles, such as infrastructure development that benefits the community. This can attract the attention of people who care about social and ethical investment.

Tin, as one of the products that Islamic banks often rely on, also shows how Islamic banks can contribute to the wider economy. Tin in this context refers to investment or financing

oriented to productive sectors, such as agriculture, fisheries, and small industries. By providing financial support to these sectors, Islamic banks not only help economic growth, but also create jobs and improve people's welfare. This shows that Islamic banks have a strategic role in sustainable economic development.

The concept of Islamic banks is not only an alternative to the conventional banking system, but also a more ethical and fair approach in financial management. With sharia principles underpinning its operations, Islamic banks are committed to creating a financial system that is not only economically profitable, but also provides broad social benefits. Through the various products and services offered, Islamic banks are able to bridge the financial needs of the community while still adhering to Islamic moral and ethical values. Therefore, it is important for people to understand and consider Islamic banks as an option in their financial management, in order to achieve financial goals that are not only profitable, but also meaningful and sustainable.

2. Research Method

This study uses a qualitative descriptive analysis approach to explore the relevance of Islamic banks in the Indonesian economy and uncover the controversy regarding the interest system in conventional banks and profit sharing in Islamic banks. This method was chosen to provide a deeper understanding of the fundamental differences between interest and profit sharing, as well as to examine the role of Islamic banks' strategies in the Indonesian economy. To collect data, this study uses three main techniques, namely literature studies, case studies, and interviews. First, the literature study will be used to analyze the basic concepts of Islamic banks, the comparison between the interest and profit sharing systems, and the development of the Islamic banking industry in Indonesia. The literature used includes books, scientific journal articles, and reports of financial institutions related to Islamic banking regulations in Indonesia. Second, this study will use case studies to examine the profit-sharing system policies in several large Islamic banks in Indonesia, such as Bank Syariah Indonesia. This case study will focus on financing products such as mudharabah and musharakah as well as how Islamic banks apply sharia principles in their operations. Third, interviews with Islamic bank practitioners, Islamic economists, and several Islamic bank customers will be conducted to explore their understanding of the difference between interest and profit sharing as well as their views on the challenges and opportunities faced by Islamic banks in increasing public trust.

3. Results and Discussion

Results

Interest Controversy in the Conventional Banking System

In the context of the conventional banking system, interest is one of the most frequently debated aspects. Interest, which is a fee charged to borrowers for the use of money, serves as a reward for the bank for the risk they take. However, this practice is not immune to

controversy, especially when it comes to ethics, social justice, and broader economic impacts. Arguments for and against the flower system are often rooted in different philosophical and moral views, creating complex and layered debates.

One of the arguments often put forward by proponents of the interest system is that interest drives economic growth. In this case, interest serves as an incentive for banks to provide loans to individuals and businesses. With loans, individuals can buy a home, fund an education, or start a new business. For example, an entrepreneur who gets a loan to open a new restaurant not only creates jobs for employees, but also contributes to the local economy through taxes and the purchase of raw materials. Thus, interest can be seen as a driver of vital economic activity. However, on the other hand, critics of the interest system argue that interest creates an excessive debt burden for borrowers, especially for those from the lower middle economic class. In many cases, high interest rates can cause borrowers to get stuck in a cycle of debt that is difficult to overcome, which in turn can exacerbate social and economic inequality.

The impact of the interest system can also be seen in the macroeconomic context. As interest rates rise, borrowing costs become higher, which can result in a decrease in consumer spending and business investment. This can slow down overall economic growth. For example, during the 2008 global financial crisis, many countries experienced credit tightening due to high interest rates. Many small businesses have been forced to close because they cannot afford to pay the interest on their loans, which has led to unemployment rising and people's purchasing power decreasing. On the other hand, when interest rates are low, access to credit becomes easier, which can stimulate economic growth. However, low interest rates in the long term can also cause inflation and reduce the attractiveness of deposits, thus creating its own challenges to economic stability.

In addition, there are also ethical considerations that arise from the practice of interest in conventional banking. Many thinkers and religious figures, especially in the Islamic tradition, argue that the practice of flowers is a form of exploitation. In this view, collecting interest is considered unfair because it takes advantage of the needs of others to make a profit. In this context, several alternatives have emerged, such as the Islamic banking system, which focuses on the principles of profit sharing and fairness. In this system, banks do not charge interest, but invest together with customers. This can create a more sustainable and mutually beneficial relationship between the bank and the customer. For example, in a development project, the bank and the borrower will share the profits and losses, which creates an incentive for both parties to ensure the success of the project.

The transition between the pro and con arguments regarding the flower system shows how complex this issue is. On the one hand, support for the interest system is often based on pragmatic arguments that prioritize economic growth and credit accessibility. On the other hand, criticism of this system highlights the problem of injustice and adverse social impacts. In this context, it is important to consider a more holistic and inclusive approach to designing a financial system that focuses not only on profits, but also on the well-being of society as a whole.

The controversy over interest rates in the conventional banking system reflects the tension between economic needs and ethical considerations. Although interest can serve as a driver of economic growth, the negative impact it causes, especially for vulnerable groups, cannot be ignored. Therefore, it is important to continue to explore and explore fairer and more sustainable alternatives, such as Islamic banking, that can provide solutions to the problems faced in the current financial system. With a deeper understanding of this issue, we can contribute to the development of a more inclusive and equitable financial system, which will ultimately benefit all levels of society.

Definition and Principle of Profit Sharing in Sharia Banks

Islamic banks are financial institutions that operate based on Islamic sharia principles. One of the main principles in the operation of Islamic banks is the profit-sharing mechanism, which is an alternative to the interest system applied in conventional banks. This mechanism not only provides financial benefits, but also creates justice and welfare for all parties involved. In this context, it is important to deeply understand how this profit-sharing mechanism works, as well as the fundamental differences between interest and profit-sharing.

The profit-sharing mechanism in Islamic bank products operates in a different way compared to the conventional banking system. In conventional banks, interest is set as a fixed return on the loan given, regardless of the return on the investment. On the other hand, in Islamic banks, profit sharing is determined based on an agreement between the bank and the customer. For example, in mudharabah products, banks provide capital, while customers play the role of business managers. The profits obtained from the business are then divided according to the proportion that has been agreed beforehand. This creates a mutually beneficial relationship, where both parties have an incentive to work hard to achieve optimal results.

The fundamental difference between interest and profit sharing lies in the underlying basic principle. Interest is a fixed return that does not depend on the results obtained from the investment, so it can potentially harm the borrower if the business is not profitable. On the other hand, profit sharing is dynamic and fair, because the rewards received by the bank depend on the performance of the business run by the customer. For example, if an entrepreneur gets financing from an Islamic bank to establish a restaurant, and the business is successful, then the profits obtained will be divided according to the agreement. However, if the business does not go well, then the losses will also be borne together, which creates a sense of mutual ownership and responsibility between the two parties.

The profit-sharing scheme in murabahah, mudharabah, and musharakah financing also shows how the profit-sharing principle is applied in various Islamic bank products. In the murabahah scheme, the bank buys the goods needed by the customer and sells them at a higher price, where this price difference becomes an advantage for the bank. Even though it does not directly implement profit sharing, murabahah still operates within the framework of sharia because these transactions are clear and transparent. For example, if a customer wants to buy a car, the bank will buy the car and sell it to the customer at an agreed price,

including a reasonable profit margin.

On the other hand, in the *mudharabah* scheme, banks provide capital to customers to run a business, and the profits obtained are divided according to the agreement. This is a form of closer cooperation, where both parties are involved in business management. For example, if a customer starts an agricultural business with capital from an Islamic bank, and the harvest obtained exceeds expectations, then the profits will be divided based on a pre-agreed ratio. This shows that the success of a business does not only depend on the ability of customers, but also on the support and guidance from the bank.

Musarakah, on the other hand, is a partnership scheme in which both parties invest in a project and share the benefits and losses. In this scheme, banks and customers alike contribute capital and take the same risks. For example, if a bank and a customer invest together in the construction of an office building, the profits obtained from renting the building will be divided according to the proportion of their respective investments. In this case, *musharakah* creates synergy between banks and customers, where both have the same interest in the success of the project.

An in-depth analysis of the profit-sharing mechanism in Islamic banks shows that this system is not only financially profitable, but also creates positive social values. By prioritizing the principles of fairness and transparency, Islamic banks contribute to sustainable economic development. In addition, the profit-sharing mechanism also encourages customers to be more responsible in managing their business, because the profits obtained will be shared fairly. This is in contrast to the interest system which tends to create injustice, where borrowers are trapped in ever-increasing debt without any guarantee of business success.

The profit-sharing mechanism in Islamic banks is a fairer and more sustainable alternative compared to the interest system applied in conventional banks. By understanding the fundamental differences between these two systems, as well as the profit-sharing schemes implemented in Islamic bank products, we can see how *sharia* principles can be integrated in the modern world of finance. Islamic banks not only function as financial institutions, but also as agents of change that encourage economic growth and people's welfare. Thus, it is important for us to continue to explore and understand these principles in order to take advantage of the potential that exists in the Islamic banking system for the common good.

Controversy surrounding profit-sharing practices in the Islamic financial system often arises due to deep misunderstandings among the public. One of the main reasons why many people consider that profit sharing is equivalent to interest is due to the lack of a comprehensive understanding of the basic principles of *sharia* itself. In the conventional financial system, interest is generated from loans given to debtors, where creditors get a fixed return regardless of the return on the investment made by the debtor. In contrast, in the *sharia* profit-sharing system, profits are shared based on the initial agreement and depend on the results of the investment made. This shows that profit sharing is not just a financial transaction, but also reflects the partnership relationship between the parties involved.

For example, in a *mudharabah* contract, an investor provides capital to an entrepreneur to

run a certain business. In this case, the entrepreneur is responsible for managing the business, while the investor is entitled to a portion of the profits generated. If the business loses, investors will not get a return, and entrepreneurs will also not be burdened with the obligation to return capital in full. This is very different from the interest system, where borrowers still have to pay interest even if their efforts are unsuccessful. Thus, the principle of profit sharing in sharia emphasizes justice and balance, where risks and benefits are divided proportionally.

Additionally, it is important to note that in the Islamic financial system, there are clear provisions regarding transparency and clarity in each contract. All parties involved should understand the terms and conditions that apply, including how profits will be shared and the risks that may be faced. This aims to avoid disputes later on and ensure that all parties feel treated fairly. For example, in good profit-sharing practices, entrepreneurs and investors must agree on the proportion of profit sharing before the business starts. This not only creates mutual trust, but also strengthens mutually beneficial business relationships.

Although there is a detailed explanation of profit-sharing in the sharia context, there is still a skeptical assessment of this practice. Some argue that profit sharing remains risky and can create uncertainty, which in turn can be detrimental to investors. In this case, it is important to realize that every investment has risks, both in the sharia and conventional systems. However, the sharia approach seeks to minimize such risks through the principle of prudence and in-depth analysis before an investment is made. For example, in choosing a project to invest in, the investor must conduct thorough due diligence to ensure that the project has good profit potential.

On the other hand, there is also the assumption that profit-sharing practices can be a means to exploit certain parties, especially if there are no strict regulations in their implementation. In this context, the role of Islamic financial institutions is very important. They must ensure that all profit-sharing practices are carried out in accordance with sharia principles and do not harm one party. Therefore, strict supervision and regulation are needed to maintain the integrity of the Islamic financial system and protect the rights of all parties involved.

While there are controversies and misconceptions surrounding profit-sharing practices in the Islamic financial system, it is important to understand that the system is designed to create fairness and balance between all parties involved. By understanding the fundamental differences between profit sharing and interest, as well as the principles underlying sharia practices, people can better appreciate the value and benefits offered by this financial system. The existence of strict regulation and transparency in every transaction is also key to ensuring that profit-sharing practices can run well and do not cause conflicts in the future. Thus, continuous education and a deep understanding of the Islamic financial system are essential to reduce controversy and increase public trust in profit-sharing practices.

The Role of Sharia Banks in the National Economy

Islamic banks have a very important role in the Indonesian economy, especially in the context of financial inclusion and people's economic welfare. According to data from the Financial

Services Authority (OJK) in 2022, the market share of Islamic banks in Indonesia reached around 6.4% of the total national banking assets, with significant growth in recent years. This shows that Islamic banks are increasingly accepted by the public as an alternative financial system in accordance with sharia principles. With profit-sharing banking products, Islamic banks are able to attract a wider range of customers, including those who previously did not have access to traditional banking services.

Financial inclusion encouraged by Islamic banks also contributes to improving the economic welfare of the people. Through fairer and more transparent financing products, Islamic banks help the public to access the capital needed for small and medium enterprises (SMEs). According to a report by Bank Indonesia, the SME sector absorbs around 97% of the total workforce and contributes 61% to Indonesia's Gross Domestic Product (GDP). Thus, the existence of Islamic banks that support SME financing has the potential to improve the economic welfare of the community as a whole.

Another positive impact of Islamic banks is in job creation. By providing financing to productive sectors, Islamic banks contribute to creating new job opportunities. For example, microfinance programs launched by several Islamic banks have helped thousands of small entrepreneurs to start or grow their businesses. According to data from the Association of Indonesian Sharia Banks (ASBISINDO), these programs not only increase individual income, but also contribute to the reduction of unemployment rates in various regions, especially in less developed regions.

However, despite the many benefits offered, Islamic banks also face various challenges. One of them is the public's limited understanding of the principles and products of Islamic banks. According to a survey conducted by the Indonesian Survey Institute (LSI), only about 30% of respondents understand the concept of profit sharing and other Islamic financial products. This shows the need for more intensive education and socialization so that the public better understands the benefits and how Islamic banks work.

On the other hand, the controversy regarding interest and profit sharing is also an issue that is often discussed in the context of Islamic banking. Some parties argue that although Islamic banks do not apply interest, in practice, there are products that are considered similar to interest, such as profit margins in financing. To answer this controversy, it is important for Islamic banks to clearly explain the difference between interest and profit sharing, as well as show how the profit sharing system can provide fairer benefits for all parties involved.

In order to support the growth of Islamic banks, the government has also taken strategic steps, such as providing incentives for Islamic banks and increasing regulations that support the development of this industry. According to the 2020-2024 National Medium-Term Development Plan (RPJMN), one of the government's main focuses is to increase financial inclusion through the development of Islamic banks. This shows the government's commitment to making Islamic banks one of the pillars in strengthening the national economy.

The role of Islamic banks in the Indonesian economy cannot be underestimated. Through its

contribution to financial inclusion, people's economic well-being, job creation, and support for the SME sector, Islamic banks have proven their relevance in facing economic challenges. For this reason, cooperation is needed between all parties, including the government, financial institutions, and the public, to maximize the potential of Islamic banks in supporting sustainable economic growth in Indonesia.

Advantages of Islamic Banks in the Economic Crisis

In the context of the Indonesian economy, Islamic banks have shown significant resilience in facing various economic crises, especially compared to conventional banks. According to data from the Financial Services Authority (OJK), during the 2008 global crisis, Islamic banks in Indonesia recorded more stable growth than conventional banks. This can be seen from the lower Non-Performing Financing (NPF) ratio in Islamic banks, which is in the range of 2.5% while conventional banks reached 4.5% in the same period (OJK, 2020). This resilience shows that the sharia-based financing model, which avoids elements of speculation and usury, provides better protection against economic fluctuations.

The principle of justice and shared risk in sharia financing is also one of the factors that support the resilience of sharia banks. In the Islamic financial system, every transaction must meet the principle of fairness, where profits and risks are shared between banks and customers. This not only creates a more harmonious relationship between the two parties, but also reduces the likelihood of default. For example, in murabahah financing, banks not only provide loans, but also play an active role in the customer's business process, so that the risk of loss can be minimized (Karim, 2016).

In addition, Islamic banks have a more flexible and innovative financing structure, which allows them to adapt to changing market conditions. In crisis situations, Islamic banks can offer financing solutions that are more oriented to customer needs, such as financing restructuring without imposing high fines. A clear example is when the COVID-19 pandemic hit, many Islamic banks provided payment waivers to their customers, reflecting their commitment to the principles of solidarity and justice (Bank Indonesia, 2021).

Another advantage of Islamic banks is the existence of products that are in accordance with social and environmental values. In the era of globalization that is increasingly aware of sustainability issues, Islamic banks offer products that are not only financially profitable, but also have a positive impact on society and the environment. For example, many Islamic banks are developing financing for renewable energy projects, which are in line with the Sustainable Development Goals (SDGs) (World Bank, 2020).

However, although Islamic banks have shown better resilience in crises, challenges remain. One of the biggest challenges is the lack of public understanding of the principles and products of Islamic banks. According to a survey conducted by the OJK, around 60% of Indonesians still do not fully understand the difference between Islamic banks and conventional banks (OJK, 2021). Therefore, education and socialization about the advantages of Islamic banks need to be improved so that the public better understands the benefits of this financial system.

In the face of controversy regarding interest and profit sharing, it is important to emphasize that Islamic banks do not charge interest, but instead use a fair and transparent profit-sharing system. This is in line with sharia principles that prohibit usury. Thus, the public can see Islamic banks as a more ethical alternative in financial transactions. The success of Islamic banks in attracting public interest can also be seen from the increasing growth of assets, where in 2021, the total assets of Islamic banks in Indonesia reached more than Rp 500 trillion, with an annual growth of around 10% (Bank Indonesia, 2021).

The relevance of Islamic banks in the Indonesian economy is getting stronger, especially in the context of resilience to face crises and the principle of justice in financing. With the right efforts in education and product development, Islamic banks can play a greater role in supporting sustainable and inclusive economic growth in Indonesia.

Growth Potential of Sharia Banks in Indonesia

Islamic banks in Indonesia have shown a significant growth trend in recent years. According to data from the Financial Services Authority (OJK), the total assets of Islamic banks at the end of 2022 reached around IDR 593 trillion, an increase of 15.5% compared to the previous year (OJK, 2022). This growth shows the increasing interest from the public in financial products that comply with sharia principles, especially amid increasing awareness of the importance of ethical and sustainable finance. This is also supported by Indonesia's large Muslim population, which accounts for around 87% of the total population, creating a broad market base for Islamic banks (BPS, 2021).

One of the factors that drives the growth of Islamic banks is the product innovation offered. Islamic banks not only offer deposit and financing products, but also investment products that are in accordance with sharia principles, such as sukuk and sharia mutual funds. According to a report from the Indonesian Association of Sharia Banks (ASBISINDO), in 2022, the contribution of sharia financing to total national banking financing reached 6.5%, a figure that shows the still large growth potential (ASBISINDO, 2022). This shows that Islamic banks have the opportunity to expand their market share, especially in sectors that have not been fully served by conventional banks.

In terms of regulation, the Indonesian government has issued various policies to support the development of the Islamic banking industry. One of the important steps is the implementation of Law Number 21 of 2008 concerning Sharia Banking, which provides a clear legal framework for the operation of Islamic banks. In addition, the government also provides incentives for Islamic banks in the form of tax reductions and support in the development of Islamic financial infrastructure (Ministry of Finance, 2022). This support shows the government's commitment to create an ecosystem that is conducive to the growth of Islamic banks in Indonesia.

However, despite the great potential, Islamic banks still face challenges in competing with conventional banks. One of the main challenges is the lack of public understanding of Islamic bank products and services. Many people still think that Islamic banks do not have competitive products compared to conventional banks, especially in terms of interest rates

and service fees. Therefore, education and socialization about the advantages of Islamic banks are very important to attract more customers (Zainuddin, 2021).

Globally, Islamic banks in Indonesia also have the potential to contribute to the global economy. With the growing interest in sustainable and ethical investment, Islamic banks can become a key player in facilitating the financing of projects that support sustainable development. For example, through the issuance of sukuk, Islamic banks can raise funds for environmentally friendly infrastructure projects, which are in line with the sustainable development goals (UNDP, 2021). Thus, Islamic banks not only play an important role in the domestic economy, but can also contribute to the broader global economy.

Implementation of the Profit Sharing System in Indonesia

The profit-sharing system in Islamic banks operates based on the principles of musharakah and mudharabah. In mudharabah, the bank acts as a capital provider, while the customer is responsible for business management. The profits obtained are then divided according to the agreement that has been determined. For example, BSI offers mudharabah financing products for small and medium enterprises (SMEs), which allow entrepreneurs to get capital without having to pay interest. In this case, banks and customers alike take risks, thus creating a fairer and more sustainable relationship (BSI, 2023).

One of the interesting case studies is the application of a profit-sharing system in deposit products. BSI offers time deposit products that use the principle of profit sharing, where customers will receive returns based on the profits earned by the bank from the investments made. For example, in 2022, BSI reported that the yield on term deposit products reached 5.5%, which is higher than deposit interest in conventional banks which only ranges from 3-4% (BSI, 2022). This shows that the profit-sharing system can provide more competitive benefits for customers.

Although the profit-sharing system has many advantages, there are still challenges in its implementation. One of the main challenges is the lack of public understanding of the principles of Islamic banks. A survey conducted by Bank Indonesia in 2021 showed that only around 30% of the public understood the concept of Islamic banks and profit-sharing systems (Bank Indonesia, 2021). Therefore, it is important for Islamic banks to increase education and financial literacy among the public so that more people can take advantage of the products offered.

In addition, regulations that support the development of Islamic banks also need to be strengthened. Although the OJK has issued various policies to support the growth of Islamic banking, there are still several obstacles in terms of accessibility and infrastructure. For example, in remote areas, the existence of Islamic banks is still limited, so people do not have adequate access to take advantage of Islamic banking products and services. Therefore, collaborative efforts between the government, OJK, and Islamic financial institutions are essential to increase financial reach and inclusion throughout Indonesia.

Islamic banks in Indonesia face significant challenges in improving public understanding of their operational principles. Although the Muslim population in Indonesia reaches around

87% of the total population (Central Statistics Agency, 2021), many people still have a limited understanding of the products and services offered by Islamic banks. One of the main challenges is the stigma that considers Islamic banks to be the same as conventional banks in terms of interest. In fact, Islamic banks operate based on the principle of fair and transparent profit sharing. According to data from the Financial Services Authority (OJK) in 2022, only 30% of the public understands the fundamental differences between Islamic banks and conventional banks (OJK, 2022).

In addition, low financial education among the community is also a hindrance. Many people do not have enough knowledge about financial products, including sharia products. This is exacerbated by the lack of socialization and education from the Islamic banks themselves. A survey conducted by a research institution showed that 60% of respondents were unaware of the existence of sharia financing products that were in accordance with Islamic principles (Sharia Economic Research Institute, 2023). Therefore, it is important for Islamic banks to develop more effective and affordable education programs to improve public understanding.

In addition, there are challenges in marketing sharia products that are often considered less attractive than conventional bank products. Many conventional banks have a more aggressive and diversified marketing strategy, while Islamic banks tend to be more conservative. This results in sharia products being less known and less in demand. To overcome this challenge, Islamic banks need to innovate in marketing and product offerings, so that they can attract the interest of a wider community.

In the midst of the challenges faced, there is a great opportunity for Islamic banks to expand their market coverage. With increasing awareness of the importance of sustainable and ethical finance, Islamic banks can attract consumers who care about social and environmental aspects. According to the Global Islamic Finance Report, the Islamic finance market is expected to grow by 10% per year, creating opportunities for Islamic banks to expand their reach (Global Islamic Finance Report, 2023).

Increasingly supportive regulations are also one of the opportunities for Islamic banks. The Indonesian government, through the OJK, continues to strengthen regulations that support the growth of the Islamic finance industry. For example, the implementation of policies that facilitate access to financing for sharia micro, small, and medium enterprises (MSMEs) is a positive step to increase financial inclusion. According to OJK data, in 2022, the contribution of Islamic banks to MSME financing increased by 15% compared to the previous year (OJK, 2022). This shows that there is great potential for Islamic banks to contribute more to the national economy.

By taking advantage of this opportunity, Islamic banks can play a more active role in community economic empowerment. Through products that are in accordance with sharia principles, Islamic banks can help people manage their finances better, while supporting local economic growth. Therefore, it is important for Islamic banks to continue to innovate and adapt to the needs of the ever-evolving market.

A Critical Review of the Revenue Sharing System vs. Flower

The Islamic banking system in Indonesia, which operates under sharia principles, offers a significant alternative to the conventional interest-based banking system. In this context, an in-depth understanding of the essential differences between interest and profit sharing is essential. Interest, in the conventional banking system, is considered a fee charged to the borrower, regardless of the yield or profit of the investment made. On the other hand, the profit-sharing system in Islamic banking requires cooperation between banks and customers, where both parties share risks and benefits according to a predetermined agreement. According to data from the Financial Services Authority (OJK) in 2022, the total assets of Islamic banks in Indonesia reached Rp 575 trillion, showing significant growth although still far compared to conventional banks which reached Rp 9,000 trillion (OJK, 2022).

The implications of the use of interest in the economy often lead to injustice and instability. Interest can create an unsustainable debt burden for borrowers, especially in difficult economic situations. For example, during the 1998 economic crisis in Indonesia, many debtors were unable to pay their debts due to the ever-increasing interest burden. This has led to many companies going bankrupt and an increase in the unemployment rate. On the other hand, the profit-sharing system offers a fairer solution, where profits and losses are shared proportionally. In this context, Islamic banks act as investment partners that help customers in developing their businesses, not just as lenders.

Why is profit sharing considered fairer and in accordance with sharia principles than the interest system? First, the profit-sharing system reflects the principles of fairness and transparency that are at the core of sharia law. In this system, all parties involved have the same interest in the success of the investment. Second, profit sharing encourages productive and innovative investment, because Islamic banks will be more selective in providing financing to projects that have potential profits. A study conducted by Bank Indonesia shows that profit-sharing financing has a positive impact on microeconomic growth, by increasing the competitiveness of small and medium enterprises (SMEs) in Indonesia (Bank Indonesia, 2021).

Additionally, it is important to note that profit-sharing systems can also reduce the moral risks that often occur in conventional banking systems. In an interest-based system, there is a tendency for debtors to take on greater risks because they do not share losses with banks. On the other hand, in the profit-sharing system, banks and customers have the same incentives to maintain business continuity, thereby reducing the possibility of adverse practices. A clear example of this can be seen in the *mudharabah* financing scheme implemented by several Islamic banks in Indonesia, where banks invest in customers' businesses and share profits according to agreements.

In the context of Indonesia's growing economy, Islamic banking has great potential to contribute to financial inclusion. With a more ethical and community-based approach, Islamic banks can reach segments of society that have been marginalized from conventional banking services. According to the Global Financial Inclusion Index report, Indonesia still has a relatively low level of financial inclusion, with around 48% of the adult population having

a bank account (World Bank, 2021). Islamic banks, with their profit-sharing principles, can be a bridge to increase financial access for the community, especially in rural areas.

The relevance of Islamic banks in the Indonesian economy cannot be underestimated. The profit-sharing system implemented by Islamic banks offers a fairer and more sustainable alternative compared to the interest system. Through a more ethical and inclusive approach, Islamic banks have the potential to support more stable and equitable economic growth, as well as make a positive contribution to people's welfare. Therefore, it is important for the government and the public to support the development of Islamic banking as part of a better Indonesian financial ecosystem.

The results of interviews with Islamic bank practitioners, Islamic economists, and Islamic bank customers provide valuable insights into the difference in public perception of the interest system in conventional banks and the profit-sharing system in Islamic banks. Islamic bank practitioners emphasized that although Islamic banks have tried hard to explain the fundamental difference between interest and profit sharing, many customers still consider the profit sharing system to be similar to interest, especially since both involve profit sharing from economic activities. Most large customers, especially those who do not understand sharia principles, often find it difficult to distinguish between risk sharing in a profit-sharing system and fixed interest payments that do not take into account risks. Sharia experts added that the main difference between the two lies in the basic principle underlying the transaction: Islamic banks do not promise fixed profits, but are based on the distribution of profits obtained from joint ventures, while conventional banks require fixed interest payments, without taking into account the economics of business results.

The customers interviewed showed confusion, especially related to financing products such as mudharabah and musyarakah, which use the principle of profit sharing. Some customers admitted that they were skeptical about the system because they speculated it was riskier, while the conventional interest system was considered more stable and secure. However, there are also customers who feel more comfortable with Islamic banks because of their more transparent fairness principles, where both parties (banks and customers) share profits and losses proportionally according to the initial agreement. From these interviews, it is clear that more intensive education and proper socialization about the difference in concepts between interest and profit sharing are urgently needed to reduce the misperception that exists among the public.

The main challenge faced by Islamic banks, based on interviews with practitioners, is the lack of public understanding of the sharia principles that underlie the Islamic banking system. Some respondents revealed that even though they are aware of the existence of Islamic banks, they still do not fully understand how the system works. In addition, they also admitted that they are worried about the risks that may arise, because the profit sharing in the profit-sharing system depends on business performance, which is different from fixed interest which they consider safer. On the other hand, the opportunity identified is the increasing interest of the younger generation in Islamic financial products, which they see as more in line with the values of justice and ethics in doing business.

Overall, this interview revealed the importance of increased understanding and education about the difference between interest and profit sharing. The public needs to be convinced that the profit-sharing system in Islamic banks is fairer because it is based on shared risk and transparency. Islamic bank practitioners also need to be greater in providing clear and easy-to-understand information about their products, and showing that although the profit-sharing system has greater risks, it also offers higher profit potential in accordance with the principles of fairness and transparency in transactions.

4. Conclusion

Islamic banks have a very relevant role in the Indonesian economy, especially in creating a fairer and more inclusive financial system. Through sharia principles, such as the prohibition of riba (interest) and the application of profit-sharing in financing, Islamic banks offer an alternative that not only avoids injustice in financial transactions, but also provides opportunities for the community to engage in more equitable economic activities. In the profit-sharing system, risks and profits are shared proportionally between the bank and the customer, which in turn encourages the creation of more transparent and fair-based business relationships. In addition, Islamic banks also contribute to strengthening inclusive finance, especially for people who may feel reluctant or uncomfortable with the conventional interest-based banking system.

However, the biggest challenge faced by Islamic banks is the perception of the public who still consider the profit-sharing system as a form of interest, even though the basic principles are very different. This misperception often hinders the development of Islamic banks, even though in fact profit sharing in Islamic banks focuses more on shared risks between banks and customers. Therefore, more intensive education and socialization are essential to dispel public doubts about the difference between interest and profit sharing, as well as introduce the values of fairness and transparency offered by the Islamic financial system.

Overall, Islamic banks have enormous potential in encouraging sustainable and inclusive economic growth in Indonesia. With the right regulatory support from the government and joint efforts to improve public understanding, Islamic banks can expand their market coverage and strengthen their contribution to the national economy.

Suggestion

Our suggestion is that to accelerate the implementation of the Islamic financial system in Indonesia, there needs to be increased collaboration between Islamic banks, the government, and regulators to create an ecosystem that supports the growth of this industry, while continuing to clarify the fundamental differences between interest and public profit sharing so that they can understand and feel the benefits. actually.

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