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Sociological Study of the Development of Islamic Banking within the Legal System in Indonesia

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ABSTRACT

Development of Islamic Financial Institutions (IFIS), particularly Islamic banks, in Indonesia, has seen significant growth, especially following the enactment of Law No. 21 of 2008 on Islamic Banking and Supreme Court Regulation (PERMA) No. 2 of 2008 on Shariah Economic Dispute Resolution. With the increasing number of institutions operating based on Shariah principles, various new issues related to Shariah compliance have arisen. Fatwas issued by the DSN-MUI hold legal authority in determining Shariah aspects in the economy, including banking. On the other hand, Shariah Economic Dispute Resolution (KHES) plays a role as a social control tool to manage practices not compliant with Islamic commercial law, especially in economics. This research, a descriptive qualitative study with a normative sociological approach, utilizes codified legal sources like KHES and DSN-MUI fatwas. The results suggest that, from a sociological perspective, KHES was developed as a response to the evolving landscape of Shariah economic practices requiring a legal framework. Stakeholders in Shariah economics and finance are expected to actively contribute to its improvement. DSN-MUI fatwas, in a social context, provide a solution for addressing non-compliant financial institutions, reconciling differences among scholars, and promoting Islamic principles in economics and finance.

Keywords: *Sharia Banking; Sociological; Law; KHES; DSN MUI.*

INTRODUCTION

As mandated by Pancasila and the 1945 Constitution of the Republic of Indonesia, the primary goal of national development is to create a just and prosperous society through a fair economic system based on the principles of economic democracy. To ensure the realization of this economic democracy, all the potential, initiatives, and creativity of the community must be mobilized and fully developed while keeping the common interest in mind. The aim is to channel all existing economic potentials into tangible economic strength for the betterment of the people's well-being.

In the effort to achieve this goal, the implementation of economic development must pay special attention to harmony, compatibility, and balance among elements such as development equity, economic growth, and national stability. One of the institutions that plays a strategic role in achieving this harmony, compatibility, and balance in the

development trilogy is the banking sector.

Banking refers to aspects related to banks, including institutional structure, economic activities undertaken, and the methods and procedures used in conducting their business operations. In simpler terms, a bank can be described as a financial entity responsible for collecting funds from individuals or the general public, and then reallocating these funds to the community while providing various additional financial services (Kasmir, 2018).

In terms of types of banks based on their business activities, we can distinguish between conventional banks and Shariah banks in Indonesia. According to Law No. 21 of 2008, conventional banks are financial institutions that operate traditionally, while Shariah banks conduct their business based on Islamic principles. These Islamic principles refer to the principles of Islamic law in banking activities, which are regulated by fatwas issued by the National Shariah Board of the Indonesian Ulema Council (Djaja, 2020).

Data provided by the Financial Services Authority in 2017 indicated the existence of 13 Islamic commercial banks in Indonesia at that time, 21 Shariah business units that were part of conventional commercial banks, and 102 Shariah People's Financing Banks.

The growth of Islamic banks in Indonesia is attributed to government support, especially since the enactment of Law No. 21 of 2008. Additionally, Shariah banks received legal certainty in dispute resolution after the passage of Law No. 3 of 2006, which amended Law No. 7 of 1989 on Religious Courts, giving Religious Courts exclusive jurisdiction over cases involving Muslim individuals in the context of Shariah economics.

When the authority to adjudicate Shariah economic legal disputes was fully entrusted to Religious court judges, comprehensive codification of Shariah economic law became necessary to ensure a strong legal foundation and clear standards for judges handling Shariah business dispute cases.

In the context of Religious Courts, there may be differences of opinion in decision-making regarding Shariah economic cases. Therefore, legal certainty becomes crucial as a basis for decision-making in Religious Courts, especially considering the flexible and diverse nature of muamalah (Islamic commercial transactions), which could lead to variations in rulings that hinder the achievement of justice. Hence, there is a clear need to codify Shariah economic law into a comprehensive Islamic civil law code to provide consistent guidance.

In Indonesia, Shariah economic law is generally available in the form of interpretations by religious scholars (fuqaha) or fatwas issued by the National Shariah Board of the Indonesian Ulema Council (DSN-MUI). Some of these fatwas have been adopted as part of Bank Indonesia regulations to govern legal aspects in the context of Shariah economics. To address legislative gaps in this area and for dispute resolution purposes, the Supreme Court of the Republic of Indonesia issued Supreme Court Regulation No. 02 of 2008 concerning the Compilation of Shariah Economic Law (KHES).

Furthermore, practitioners of Islamic economics, the public, and government regulators rely heavily on fatwas issued by DSN-MUI to ensure that products and operations of Islamic economic institutions in Indonesia comply with Shariah principles.

However, it should be considered whether existing laws provide adequate freedom for the growth of Shariah economics among the public or, conversely, whether they may limit the development of Shariah economics. Additionally, it is essential to assess the impact of the law on economic development in society after the implementation of KHES. Therefore, this article aims to address a series of questions related to these issues.

RESEARCH METHOD

Legal research is a scientific process conducted following specific methods, structures, and specialized thinking. The purpose of this research is to understand and analyze one or more specific legal aspects or legal phenomena (Istanto, 2007). In this study, a normative sociological legal research method is employed, based on a legislative approach. This approach emphasizes the analysis pattern and law based on codified legal sources, such as laws, the Compilation of Shariah Economic Law (KHES), and fatwas issued by the National Shariah Board of the Indonesian Ulema Council (DSN-MUI), using the method of legal sociology. Furthermore, the analysis is conducted using an economic science framework that connects the sociological aspects of economic law with codified sources of Islamic economic law to evaluate the extent of their application in society in an economic context.

In this research, secondary data sources are used, obtained from legislative regulations, scholarly journals, and legal literature. The data collection method applied is literature review. Additionally, the data analysis technique used is qualitative analysis.

RESULT AND DISCUSSION

The History of Islamic Banking Development in the Indonesian Legal System

According to the Organization of the Islamic Conference, Islamic banking is a financial institution that adheres to Shariah principles and has laws, regulations, and procedures that reflect a commitment to these principles. Furthermore, these institutions prohibit the acceptance and payment of interest in their operations (Rivai, 2010).

For a considerable period, Muslims, including those in Indonesia, faced various challenges in realizing their economic potential and development. One of the reasons for this was a significant dualism issue between conventional and Shariah economies. This dualism emerged because Muslims encountered difficulties in reconciling two disciplines, namely economics and Shariah, which should ideally complement and enhance each other (Antonio, 1999).

In Indonesia, in accordance with the principles of Pancasila and the 1945 Constitution of the Republic of Indonesia, the primary goal of national development is to create a just and prosperous society through economic democracy. To achieve this, the focus is placed on developing an economic system based on fair market mechanisms. The implementation of national economic development aims to create an economy that supports the people, is equitable, self-reliant, robust, fair, and competitive in the global economy (Anshori, 2018).

To achieve this national development goal and enable Indonesia to actively participate in healthy global competition, all segments of society must participate and contribute. This is done to tap into the potential within society to accelerate the economic process and achieve national development goals.

One way to tap into this potential and contribute to the national economy is by developing an economic system based on Islamic (Shariah) principles and integrating these principles into the national legal framework. Shariah principles are based on values such as justice, utility, balance, and universality. These values are applied in the regulation of banking conducted in accordance with Shariah principles, often known as Islamic banking.

Islamic banking is a part of Islamic teachings related to economic aspects. One crucial principle in Islamic economics is the prohibition of usury (riba) in all its forms and the application of profit-and-loss sharing principles. By implementing profit-

and-loss sharing principles, Islamic banks can create a healthy and fair investment environment, as all parties can share profits and potential risks. This creates a balance between banks and customers, ultimately promoting national economic equity, as profits are not solely enjoyed by capital owners but also by capital managers.

The application of Islamic law in Indonesia has been constitutionally grounded for three main reasons: philosophical, sociological, and juridical. From a philosophical perspective, Islamic teachings are considered the dominant worldview, morality, and law among the majority of Muslims in Indonesia, significantly influencing the formation of the foundational norms of the Pancasila state. Sociologically, the historical development of Islamic society in Indonesia demonstrates that Islamic law aspirations and legal consciousness are rooted in Islamic teachings and remain relevant in society. Juridically, Article 24, Article 25, and Article 29 of the 1945 Constitution officially provide a legal basis for the application of Islamic law in Indonesia (Sumarni, 2012).

The initial efforts related to the establishment of Islamic banks in Indonesia began in 1990. From August 18 to 20, 1990, the Indonesian Ulama Council held a "Workshop on Bank Interest and Banking" in Bogor, West Java. The results of this workshop were further discussed at the Fourth National Congress of the Indonesian Ulama Council held in Jakarta from August 22 to 25, 1990. The objective was to form a working team responsible for establishing Islamic banks in Indonesia. This working team eventually led to the establishment of Bank Muamalat Indonesia on November 1, 1991, which officially commenced operations on May 1, 1992. Following this, several Islamic People's Credit Banks (Bank Perkreditan Rakyat Syariah) were also founded, including Berkah Amal Sejahtera, Dana Mardhatillah, Amanah Rabaniah in Bandung, and Hareukat in Aceh.

The government responded swiftly to these early developments in Islamic banking. On March 25, 1992, Law No. 7 of 1992 concerning Banking was enacted, replacing Law No. 14 of 1967 concerning the Principles of Banking, with the aim of accommodating the presence of Islamic banks in Indonesia (Utama, 2018).

In Article c of Law No. 7 of 1992, it is stated that one of the functions of commercial banks and People's Credit Banks is to provide financing to customers based on profit-and-loss sharing principles, in accordance with regulations set by the government. This regulation serves as the legal foundation for the operations of Islamic banking. Furthermore, this regulation was reinforced by

Government Regulation No. 72 of 1992 concerning Banks Based on Profit-and-Loss Sharing Principles.

According to Government Regulation No. 72 of 1992, banks based on profit-and-loss sharing principles are commercial banks or People's Credit Banks that conduct all of their business activities by adhering to profit-and-loss sharing principles in accordance with Islamic law in determining the compensation to be given to the public regarding the use of funds managed by the bank, establishing compensation to be received in connection with providing funds to the public in the form of financing, and determining compensation related to other business activities generally conducted by banks on a profit-and-loss sharing basis.

The enactment of Law No. 10 of 1998 as an amendment to Law No. 7 of 1992 further strengthened the regulatory framework for Islamic banking in Indonesia. In Article 1 of Law No. 10 of 1998, it is clearly stated that both commercial banks and People's Credit Banks can operate banking operations either conventionally or in accordance with Shariah principles. This article also provides a comprehensive definition of Shariah principles, which includes agreements based on Islamic law between banks and other parties for fund management or business financing, including profit-and-loss sharing financing (*mudharabah*), equity participation financing (*musharakah*), profit-based sales of goods (*murabahah*), and capital goods financing based on pure leasing (ijarah) or leasing with an ownership transfer option (*ijarah wa iqtina*).

In providing loans and conducting other banking activities, both conventional and Islamic banks are required to use an approach that does not harm the bank itself and the interests of customers who have entrusted their funds to the bank. Because banks operate with funds placed by the public based on trust, it is essential for every bank to maintain the health of its operations and uphold the level of trust the public places in it.

In 1998, the Indonesian public lost their confidence in the banking sector during an economic crisis. This economic crisis had a detrimental impact on the national banking system. Consequences of this crisis included the closure of 38 banks, such as Bank Ciputra, Bank Ganesha, Bank Pesona, Bank Alfa, Bank Aspac, and several others. Additionally, the government took over seven banks, including Bank RSI, Bank Putera Sukapura, Bank POS, Bank Artha Pratama, Bank Nusa Nasional, Bank Jaya, and Bank IFI. Furthermore, four government-owned banks like Bank Dagang, Bank Exim, Bank Bumi Daya, and Bapindo were merged to form Bank Mandiri.

However, Islamic banks did not suffer the same impact during the 1998 economic crisis. During the crisis period, Bank Muamalat Indonesia, which was the only Islamic commercial bank in Indonesia at that time, was still considered a healthy bank due to its "A" category Capital Adequacy Ratio. This demonstrated that Islamic banks managed to maintain their relatively better performance compared to conventional banks during the crisis (Prasetyo, 2018).

Apart from being a significant blow to the national banking system, the economic crisis of 1998 also marked the beginning of the development of Islamic banking in Indonesia. Interestingly, Islamic banks were not negatively affected by the economic crisis. Some conventional banks, both government-owned and private, began to develop their Islamic banking businesses by establishing their own Islamic banks. For example, Bank Syariah Mandiri was founded in 1999, Bank Permata Syariah in 2002, Bank Mega Syariah in 2004, Bank Rakyat Indonesia Syariah in 2008, Bank Syariah Bukopin in 2008, and several others (Utama, 2018).

The discussion on the idea of creating the Islamic Banking Law began in 2004. This occurred due to significant support and encouragement from the public to separate Islamic banking regulations from the more dominant conventional banking regulations. As a result, the first step towards drafting the Islamic Banking Bill (RUU Perbankan Syariah) was taken by the People's Consultative Assembly in 2005. Several institutions, such as Bank Indonesia, which prepared a draft with 16 chapters and 72 articles, the Indonesian Islamic Banks Association (Asbisindo), which submitted a draft with 10 chapters and 49 articles, and the Indonesian Association of Muslim Intellectuals (ICMI), which drafted a bill with 12 chapters and 66 articles, responded to the rapid development of Islamic banking in the national banking system.

As a consequence of this significant development, on July 16, 2008, Law No. 21 of 2008 regarding Islamic Banking was officially enacted. This law established a specific legal framework to regulate Islamic banks in Indonesia.

From a philosophical and juridical perspective, Law No. 21 of 2008 on Islamic Banking has fulfilled the demand to create justice and legal certainty for individuals seeking justice, especially in the context of Sharia economic business transactions. Article 1 of this law explains that Islamic banks are banking institutions that conduct their business activities based on Sharia principles, which are Islamic law

principles in banking operations based on fatwas issued by the National Sharia Council of the Indonesian Ulema Council (Mansyur, 2011).

The National Sharia Council of the Indonesian Ulema Council, as an institution established by the Indonesian Ulema Council to study Islamic financial institutions, has issued various fatwas that serve as regulations for Islamic banking and other Islamic financial institutions. These fatwas aim to ensure that the operations of Islamic banks and other Islamic financial institutions comply with the principles of muamalah in Islamic law.

In the year 2000, the National Sharia Council of the Indonesian Ulema Council issued a series of fatwas that formed the legal basis for fund-raising products in Islamic banking. These fatwas included Fatwa No. 01/DSN-MUI/IV/2000 on Giro, Fatwa No. 02/DSN-MUI/IV/2000 on Savings, and Fatwa No. 03/DSN-MUI/IV/2000 on Deposits.

In addition, in the same year, the National Sharia Council of the Indonesian Ulema Council also issued various other fatwas, including Fatwa No. 04/DSN-MUI/IV/2000 on Murabahah, Fatwa No. 05/DSN-MUI/IV/2000 on Salam Sales, Fatwa No. 06/DSN-MUI/IV/2000 on Istishna Sales, Fatwa No. 07/DSN-MUI/IV/2000 on Mudharabah Financing, Fatwa No. 08/DSN-MUI/IV/2000 on Musyarakah Financing, and Fatwa No. 09/DSN-MUI/IV/2000 on Ijarah Financing. These six fatwas became the legal basis for fund allocation products in Islamic banking.

By 2009, the National Sharia Council of the Indonesian Ulema Council had issued a total of 75 fatwas as regulations for Islamic banking in Indonesia. The rapid development of Islamic banking in Indonesia has experienced significant growth. A crucial period in this development was the 1990s, when the concept of Islamic banking began to mature, and the first Islamic bank, Bank Muamalat Indonesia, was established. Bank Muamalat Indonesia played a pioneering role and served as the initial symbol of the widespread implementation of Islamic economic law in Indonesia. This period was strategically important as it became the cornerstone of the success or failure of Islamic banking in subsequent eras.

The long journey of the development of Islamic banking in Indonesia cannot be separated from the significant role played by Bank Muamalat Indonesia. According to data from the Financial Services Authority in 2017, there are currently 13 Islamic commercial banks, 21 Sharia business units originating from conventional banks, and 102 Sharia

People's Financing Banks. This is concrete evidence of the existence and significant growth in the Islamic banking sector in Indonesia. It shows that Islamic banking can grow rapidly because it is based on the trust of the majority Muslim population in Indonesia (Utama, 2018).

In addition to complying with legal obligations according to prevailing regulations, Islamic banks also have moral responsibilities to society and an obligation of worship to Allah. Moral responsibility to society means that employees working in Islamic banks are expected to have good moral character in accordance with Islamic teachings, such as integrity and honesty in their work. On the other hand, the worship obligation to Allah means that Islamic banks indirectly play a role in Islamic proselytization (dakwah) by applying Sharia principles in transactions and supporting the avoidance of usury within the community.

The development of Islamic banking in Indonesia is also influenced by political factors, legal issues, and the intersection of Islamic law, national law, and Western law. The intellectual contributions and efforts of Islamic scholars and economists, both individually and through institutions, also play a significant role in the development of Islamic banking. Furthermore, the influence of developments and advancements in Islamic banking at the international level also impacts developments in Indonesia (Hatoli, 2020).

While the development of Islamic banking in Indonesia has been rapid, the number of banks, branch offices, and total assets of Islamic banks is still relatively small when compared to conventional banks.

With the growth of Islamic banks in Indonesia, the presence of the Sharia Supervisory Board (DPS) in each Islamic bank becomes essential to oversee their operations in accordance with Sharia principles. Furthermore, there is a need for a national supervisory board, namely the National Sharia Council, which aims to unify the views of various Sharia Supervisory Boards in these banks. The National Sharia Council also plays a role in providing legal certainty, both for the Islamic banks themselves and for users of Islamic banking services. One of the primary responsibilities of the National Sharia Council is to issue fatwas regarding Islamic banking products and oversee their operational aspects (Mansyur, 2011).

Sociological Study of the Development of Sharia Banking in Legislation

Implications of DSN-MUI Fatwas Post the Enactment of the Sharia Banking Law on the Economy

It is important to note that in the adoption of Sharia economic principles, significant developments have occurred, beginning with the issuance of Law No. 21 of 2008 concerning Sharia Banking. Initially, the implementation of Islamic banking in Indonesia was based on Law No. 7 of 1992 concerning Banking, which generally stated that banks could operate on the principle of profit and loss sharing without providing detailed explanations of this principle. Subsequently, Government Regulation No. 72 of 1992 mentioned the principle of profit sharing for sharia banks in determining profits.

Then, with the enactment of Law No. 10 of 1998 concerning Amendments to Law No. 7 of 1992 concerning Banking, the term "profit and loss sharing" was replaced with the phrase "banking based on Sharia principles." However, in response to the growing Islamic banking institutions, Law No. 21 of 2008 concerning Sharia Banking was enacted, simplifying the term to "Islamic banking." Furthermore, Article 26 of Law No. 21 of 2008 concerning Sharia Banking stipulates that the authorized institution to issue fatwas is the National Sharia Council (DSN), which is part of the Indonesian Ulama Council (MUI) (Mudzhar, 2016).

Based on the Sharia Banking Law, Sharia principles refer to the fatwas issued by DSN-MUI. Therefore, in Indonesian positive law, Sharia principles are defined as Islamic legal provisions derived from DSN-MUI fatwas. DSN-MUI plays two important roles: practical regulation for financial institutions through the tabyin function and guidance for the community on Sharia economic norms through the tawjih function.

In Indonesia, oversight responsibilities are not only the responsibility of Bank Indonesia (BI) and the Financial Services Authority (OJK) but also apply to the National Sharia Council, which has the authority to oversee Sharia aspects in the operations of Islamic Financial Institutions (IFIs). The National Sharia Council has comprehensive or national supervisory authority. Conversely, local-level oversight can be carried out by the Sharia Supervisory Board (DPS), acting as an extension of the National Sharia Council (DSN MUI) (Sula et al., 2014).

In this context, the Sharia Supervisory Board (DPS) has a dual role. First, the DPS acts as an advisor and provider of advice to the board of directors and the head of Sharia branch offices on matters related to Sharia aspects. Second, the DPS serves as an intermediary between the bank and the National Sharia Council (DSN MUI) in conveying proposals and recommendations related to the

development of products and services requiring evaluation and fatwas from DSN MUI. Additionally, the DPS also serves as a representative of DSN MUI at least once a year (Dewi, 2017).

The existence of DSN MUI fatwas has had a significant impact on social order and society, especially within the Indonesian Muslim community. Some observable changes include:

1. The fatwas issued by DSN MUI have become highly relevant factors in the practice of Islamic economics. They have become the primary guidelines and references followed by the community and even recognized by the government (Muttaqien et al., 2023).
2. Due to the strong impact and influence of DSN MUI fatwas, the Council feels the need to be responsive to social changes in society. This is done to contribute better to the welfare of the community (Luthfi, 2017).

According to M. Atho Mundzhar, there are socio-legal impacts that can be observed from DSN MUI fatwas. These fatwas have a dual nature, where on one side, they serve as Islamic legal opinions, and on the other side, they function as legally binding rules for Sharia economic practitioners. From a sociological perspective, laws and regulations are the results of social changes and, at the same time, influence social changes. There are at least four roles and statuses of DSN MUI fatwas in Indonesian society:

a. Fatwas serve as guidelines for Sharia-compliant economic transactions for the Muslim community in Indonesia.
b. Fatwas act as guidance for the Sharia Supervisory Boards (DPS) in Islamic Financial Institutions (IFIs) to ensure compliance with Sharia principles.
c. Fatwas serve as guidance for the management of IFIs to ensure that the products and services offered comply with Sharia economic principles.
d. Fatwas are used as guidelines to be integrated or adopted into various positive laws and national regulations (Mudzhar, 2016).

Thus, DSN MUI fatwas have brought about social changes in the Indonesian Muslim community within the economic context. This confirms that law can function as a tool of social control when the law is derived from social norms. The profit and loss-sharing principle had been applied in many economic transactions before the issuance of DSN MUI fatwas, making it readily accepted by the Muslim community in Indonesia as a guide in economic matters (Yumna & Taufik, 2023).

The Sociological Implications of KHES on the Economy

Sociologically, the enactment of Law No. 3 of 2006 amending Law No. 7 of 1989, which expanded the authority of religious courts, served as the basis for the development of the Compilation of Sharia Economic Law (KHES). With the existence of KHES, Sharia economic law became positive law in Indonesia, providing constitutional legal guarantees for Islamic Financial Institutions (IFIs) through the state's legal system (Yumna & Taufik, 2023).

KHES was issued in the form of Supreme Court Regulation (PERMA) No. 2 of 2008 titled "Compilation of Sharia Economic Law" (KHES). This PERMA is particularly applicable to judges within the Religious Courts (Peradilan Agama) who are responsible for examining, adjudicating, and resolving cases related to Sharia economics. Over time, KHES has undergone several adjustments to align with Sharia provisions (Compilation of Sharia Economic Law, 2009).

KHES has been disseminated and widely circulated by the Supreme Court of the Republic of Indonesia (MARI) in accordance with Supreme Court Regulation (PERMA) No. 2 of 2008. This means that KHES has been officially declared effective and enforceable for the past twelve years. Furthermore, since then, KHES has been utilized by various parties, including within the judicial system, particularly by the Religious Courts. Republic of Indonesia Law No. 3 of 2006 granted authority to the Religious Courts to receive, examine, adjudicate, and resolve cases in the field of Sharia economics, in addition to other civil cases.

However, in the broader societal context, Muamalah law has not yet become a widespread practice or a part of the customs of the Muslim community. The more formal implementation of Muamalah law has primarily occurred through Islamic Financial Institutions (IFIs), which are legally obligated to regulate these practices due to their involvement in large-scale rights and interests. Therefore, this difference also influences how Muamalah law is adopted within the positive legal system. The process of legal positivization of Muamalah law began with its institutionalization, as it had not yet become a common practice among the Muslim community (Ahmad, 2013).

When observing the practices of Muslims directly, there are still many economic practices that are not entirely in accordance with Islamic law, and some of them have even become habitual. In the context of usul al-Fiqh, this is referred to as 'urf fasid. Even Islamic Financial Institutions (IFIs), which should be

the enforcers of Muamalah law, have not fully implemented it, and there are still deviations in some areas. For example, the majority of Muslims are involved in conventional bank interest practices, which have been deemed haram (forbidden) by the fatwa of DSN MUI.

Therefore, the presence of KHES is one of the efforts to control practices that deviate from Muamalah law, especially in the economic context. Although the drafting of KHES may have appeared rushed and seemingly lacking consideration for sociological aspects, the legal perspectives of Muslims, and the opinions of legal experts, scholars, Islamic boarding schools (pesantren), and academics, involving only a small portion of them. This differs from the drafting of the Islamic Law Book (KHI) that preceded it, which engaged many scholars (kiai), Islamic universities' Sharia faculties, renowned academics, and practitioners.

It can be understood that the drafting of KHES was carried out under urgent conditions due to the demand for immediate derivative regulations from Law No. 3 of 2006.

CONCLUSION

Islamic banking is a banking system that operates based on Sharia principles. The initiative to establish Islamic banks in Indonesia began in 1990 under the guidance of the Indonesian Ulema Council and it materialized with the founding of Bank Muamalat Indonesia on November 1, 1991. The early development of Islamic banking

However, it must be acknowledged that KHES represents a significant achievement and an innovation in the history of Islamic legal thought in Indonesia.

Nevertheless, as the old saying still holds meaning, "There is no ivory that is not cracked," even in the best of circumstances, KHES still has some shortcomings, and perhaps even some errors, both in terms of content and wording, as well as in the organization of material and other aspects. Using the words of Ibn Hajar Al-Asqalani, when considering the mistakes in ijtihad made by other mujtahids, the deficiencies and errors found in KHES, compared to its excellence and advantages, can be likened to a drop in the middle of the vast ocean.

With this foundation, it is entirely appropriate for all elements of society, especially those who love Islamic knowledge, Sharia adherents, participants in the Islamic economy and finance, and Sharia activists, to actively promote and use KHES. This includes taking an active role in contributing to the improvement and perfection of KHES, which is currently under scrutiny.

within the national banking system received a swift response from the government through the enactment of Law Number 7 of 1992 concerning Banking. This law was later amended by Law Number 10 of 1998. Responding to the significant growth of Islamic banking within the national banking system, on July 16, 2008, Law Number 21 of 2008 concerning Islamic Banking was enacted as an independent legal framework for Islamic banks in Indonesia.

Sociologically, the Compilation of Sharia Economic Law (KHES) was formulated in response to the development of Sharia economic practices through Islamic Financial Institutions (IFIs) that required a legal framework. From a constitutional perspective, KHES was prepared in response to Law Number 3 of 2006 concerning Amendments to Law Number 7 of 1989 concerning Religious Courts (UUPA), which expanded the authority of Religious Courts, including in the field of Sharia Economic Law. Nevertheless, there is a need for improvements within KHES, particularly in areas that pay closer attention to legal issues arising in Sharia transactions. Therefore, it is hoped that all sectors of society, especially those interested in Sharia knowledge and practices, as well as Sharia economics and finance professionals, can contribute to enhancing and perfecting KHES.

The existence of fatwas issued by the National Sharia Board of the Indonesian Ulema Council (DSN-MUI) provides a solution for the public when dealing with financial institutions that involve elements prohibited in Islam. On the other hand, it also serves as a measure to anticipate potential differences in views among the Sharia Supervisory Boards that examine whether Islamic financial institutions adhere to Sharia principles or not. Moreover, it is expected that DSN-MUI can promote the application of Islamic teachings in the economy and finance, making them actively responsive to the dynamic developments in Indonesia's economy and finance.

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