ISSN: 3025-292X
Vol. 2, No. 3 (Sept, 2024)
pp. 465–473

The Role of Sharia-Based Non-Bank Financial Institutions in Supporting Islamic Banking in Indonesia

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ARTICLE INFO:

Keywords

Islamic non-bank financial industry; Islamic banking; Islamic financial regulation
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Article History:

Received: 2024-04-24
Revised: 2024-07-17
Accepted: 2024-09-03
Published: 2024-09-29

ABSTRACT

The Islamic non-bank financial Industry (NBFI syariah) plays an important role in supporting the growth and strengthening of Islamic banking in Indonesia. The existence of NBFI syariah, such as Islamic insurance, Islamic financing, Islamic pension funds, and Islamic capital markets, is an integral part of the national Islamic financial ecosystem. This article aims to analyze the strategic contribution of NBFI syariah in supporting the development of Islamic banking through a descriptive-qualitative approach based on literature reviews and secondary data from the Financial Services Authority (OJK), Bank Indonesia, and other relevant institutions. The findings indicate that Islamic non-bank financial institutions expand the reach of Islamic financial services, enhance financial literacy and inclusion, and provide alternative financing and risk mitigation options in line with Islamic principles. Synergistic collaboration between Islamic banking and non-banking financial institutions is considered capable of strengthening the overall stability of the Islamic financial system. Therefore, strengthening regulations, improving institutional capacity, and product innovation are key to optimizing the role of Islamic non-bank financial institutions in promoting inclusive and sustainable Islamic banking growth in Indonesia.

INTRODUCTION

In Islamic teachings, every individual is guided by Allah SWT to always remember and understand His teachings. The goal is for humans to be able to live their lives in this world while preparing for the hereafter without having to prioritize one over the other. Islam views worldly and spiritual matters as two interconnected aspects that can be carried out in harmony. This is also reflected in the Islamic economic system, which does not focus solely on material aspects, but rather prioritizes values of prosperity and justice as the basis for its implementation.

Islamic banking emerged and developed as a response to conventional banking practices deemed inconsistent with Islamic principles. Although Islamic banking does not reject the role of banks as financial intermediaries, criticism of conventional banking has arisen because there are still practices that contradict Islamic teachings, such as riba (interest), maysir (speculation/gambling), gharar (uncertainty), and invalid transactions (batil).(Alderson, J. Charles & Wall 1992). Aburime and Felix, in their study, identified six main differences between conventional banking and Islamic banking, one of which is the prohibition on the use of

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ISSN: 3025-292X
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interest. In the Islamic banking system, the imposition of interest or riba in any transaction is strictly prohibited. This principle is based on Islamic law, which prohibits additional interest in financial activities. Therefore, the growth of funds in Islamic banking must be based on real economic activities, with mechanisms for profit and risk sharing that have been agreed upon in a contract. This system emphasizes the principles of justice and balance, which are the main foundations of Islamic banking operations.(Widayanti 2023) To prevent the law from becoming an obstacle in the implementation of state duties, one strategy that can be applied is the optimization of information technology. This is relevant in the context of the Industrial Revolution 4.0, where information technology has become the main foundation in various aspects of modern human life. (Hukum et al. 2024)

In order to realize the goals of a just and prosperous Islamic economy, Islam provides guidance for its followers to fulfill their social obligations and recommendations such as zakat, infak, sedekah, and wakaf (often referred to as ZISWAF). Zakat plays a crucial role in Islamic teachings, to the extent that refusing to pay it may result in severe consequences. In addition to zakat, Islam strongly encourages infak, sedekah, and wakaf. Essentially, zakat is part of infak, so the three are closely related and are generally known as Zakat, Infak, and Sedekah (ZIS). Over time, the management of ZIS has evolved not only as a channel for distributing funds but also as a professional institution that receives wakaf funds, including in the form of cash wakaf.

However, the management of ZIS funds has so far been limited to two main sectors: charitable activities and empowerment. To broaden and sustain the impact of its management, integration with the Islamic finance sector is necessary, particularly through strengthened synergy with Sharia-based Non-Bank Financial Institutions (NBFI). Sharia-based NFI provides products and services that are in line with Islamic principles, making them strategic partners for ZISWAF management institutions. This collaboration is expected to create a positive and sustainable impact on the welfare and independence of Muslims in the long term. (Ahmadi 2017)

Cash waqf is now seen as an important and relevant instrument in efforts to achieve economic welfare and improve the overall standard of living of the community. This concept has great potential in boosting the productivity of waqf assets, especially when managed by professional institutions with expertise and capacity in financial asset management. In Indonesia, the legal basis for cash waqf is contained in the Waqf Law, which establishes the Sharia Financial Institution for Receiving Cash Waqf (LKS-PWU) as the party authorized to receive and manage cash waqf. This institution operates under a sharia-based financial system. The phenomenon of wakaf in Indonesia shows great potential as an instrument for strengthening the economy of the Muslim community, but it still faces challenges in terms of asset management and optimization. In this study, wakaf, especially cash wakaf, is positioned as an integral part of the ZISWAF (Zakat, Infak, Sedekah, and Wakaf) ecosystem that can be productively empowered through synergy with the Islamic non-bank financial industry (NBFI syariah). This research highlights the importance of collaboration between ZISWAF institutions and financial institutions, including Islamic fintech and LKS-PWU (Islamic Financial Institutions Receiving Cash Wakaf), to enhance the effectiveness of wakaf distribution and utilization in supporting social and economic development for the community.

On the other hand, research by Bintara Tamtama Putra and Gossan Daffa Majid (2024) focuses on wakaf as part of the potential of Islamic philanthropic assets that can be managed more efficiently within the framework of the Islamic Non-Bank Financial Industry. In this context, cash endowments are described as long-term financial instruments that have not been fully utilized, despite their potential through various contractual arrangements such as mudharabah and musyarakah. This research emphasizes the strategic role of Islamic Non-Bank Financial Institutions (NBFI Syariah) in providing ethical and Sharia-compliant financing alternatives, including for the development of sustainable social projects.

Therefore, to strengthen the management of Ziswaf funds (zakat, infak, sedekah, and wakaf), it is necessary to develop strategies that involve collaboration across institutions, particularly with Islamic financial institutions. Synergy between Ziswaf institutions and Islamic financial institutions is considered capable of improving the effectiveness of Ziswaf fund management and distribution, one of which is through program integration with entities in the Non-Bank Financial Industry (NBFI) sector based on Islamic principles. This collaboration can be realized through various initiatives, such as sustainable social project financing, innovation in the development of Islamic financial products, and the implementation of educational programs to enhance Islamic financial literacy among the public. Enhancing cooperation between Ziswaf institutions and Islamic NBFI also plays a crucial role in expanding public access to Islamic-based financial services, known as Islamic Financial Services, which ultimately contributes to improving financial inclusion and sustainable economic development for the community.

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In the past, waqf was often associated with immovable waqf assets, such as land and buildings, but now other forms of waqf are being considered, such as cash waqf, which can be used not only for its intended purpose but also flexibly for the development of productive businesses for the underprivileged.

Various institutions in Indonesia, including educational institutions, Islamic boarding schools, hospitals, and mosques, are supported by waqf for their existence and sustainability. The waqf system can significantly contribute to reducing government spending. Reduced government spending can decrease budget deficits and government borrowing. One form of waqf that is currently being developed globally is cash waqf. (Aziz 2017)

Sharia-compliant Islamic financial institutions (NBFI) under the supervision of the Financial Services Authority (OJK) cover various sectors such as sharia insurance, pension funds, financing, and other financial services, all of which operate based on sharia principles. The existence of this sector presents a significant opportunity for optimizing the management of Islamic philanthropic assets, which have not been fully utilized in the context of long-term investments.

In this regard, cash waqf can be optimized as a flexible financial instrument, enabling its utilization in various sharia financing schemes, such as mudharabah, musyarakah, and other forms. Additionally, ZIS funds (zakat, infak, sedekah) play a significant role in supporting sharia-based economic activities, particularly through assistance to vulnerable communities, such as in education, social welfare, and humanitarian sectors.

LITERATURE REVIEW

A. The Strategic Role of Sharia-Based Non-Bank Financial Institutions (NBFI) in the Sharia Financial Ecosystem

The Islamic non-bank financial industry (NBFI) plays a vital role in strengthening the inclusive and sustainable structure of Islamic finance. Institutions such as Islamic insurance, Islamic fintech, Islamic pension funds, and Islamic microfinance institutions operate without the practices of riba, maysir, and gharar, thereby adhering to Islamic principles (Ahmed, 2011). The presence of NBFI not only expands financial access but also complements the role of Islamic banking in reaching sectors that have been underserved, such as microenterprises and rural communities (Muneeza & Mustapha, 2023).

The flexibility of the Islamic NBFI business model also enables financial product innovations such as mudharabah-based financing, musyarakah, as well as productive endowment programs and Islamic social financing. This supports the realization of Islamic objectives, particularly in terms of economic justice and public welfare (Dusuki & Bouheraoua, 2011).

B. Synergy Between Islamic Financial Institutions (NBFI) and Islamic Banking

Research by Hassan, Paltrinieri, and Dreassi (2020) shows that synergy between Islamic banks and Islamic financial institutions has a positive effect on the resilience of the Islamic financial system, particularly in facing global crises. In Indonesia, this integration is realized through cooperation between Sharia Financial Institutions Receiving Cash Waqf (LKS-PWU) and sharia banks in distributing productive waqf funds through contracts that comply with sharia principles such as ijarah, mudharabah, and musyarakah (OJK, 2023).

In the development of financial technology, Islamic fintech also serves as a bridge between the public and financial institutions. This role includes payment systems, peer-to-peer (P2P) financing, and halal crowdfunding. According to Dawood et al. (2022), Islamic fintech enhances the efficiency of financial transactions while promoting Islamic financial literacy and inclusion. A similar view is expressed by Alam, Rizvi, and Hassan (2021), who state that fintech is a new frontier in the growth of global Islamic finance.

C. Optimizing Islamic Social Funds through Sharia-Compliant Islamic Financial Institutions (NBFI Syariah)

The management of zakat, infak, sedekah, and wakaf (ZISWAF) through Islamic Social Finance Institutions (NBFI Syariah) is a concrete solution to address the funding gap in the productive sector of the Muslim community. Ahmadi (2017) states that collaboration between ZISWAF management institutions and non-bank institutions such as BMT and Islamic fintech has proven to enhance the effectiveness of productive social fund distribution.

A study by Rohmana and Ramadani (2022) supports this view, emphasizing that digital synergy between LKS-PWU and Islamic fintech can create transparency and efficiency in the management of cash waqf. Additionally, Kurniawan and Azzahra (2023) emphasize that Islamic financial institutions (NBFI) play a crucial

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role in sustainable development through social financial instruments such as takaful and sharia-based microfinance.

A hybrid model that combines the strengths of Islamic banks and NBFI in the management of waqf has also begun to be implemented to support socio-economic projects, as researched by Nofrizal and Syahril (2024). Globally, Muneeza and Mustapha (2023) show that Islamic NBFI has made a significant contribution to expanding Islamic financial inclusion in various countries, particularly through adaptive and value-based non-bank approaches.

METHOD

This study uses a qualitative descriptive approach with a *library research* method. This approach was chosen because the research is conceptual and aims to explore the strategic role of Sharia-based Non-Bank Financial Industry (NBFI) in supporting the strengthening of Sharia banking in Indonesia.

The data used are secondary data obtained from various relevant sources, including national and international scientific journals, reports from the Financial Services Authority (OJK), Bank Indonesia publications, and policy documents and regulations related to the Islamic finance industry. The analysis technique used is content analysis, which is conducted by identifying thematic patterns from the literature reviewed to formulate the contribution of Islamic NBFI to the Islamic financial ecosystem at the macro level.

According to Zed (2004), a literature review aims to examine, understand, and critique existing thoughts in academic literature. This approach is effective for answering theoretical and conceptual questions in Islamic social research, particularly those related to Islamic finance and economics. Moleong (2018) also emphasizes that a qualitative approach is suitable for understanding the meaning, value, and relationships between concepts in a specific context in depth. In the data collection and analysis process, source triangulation was conducted by comparing the results of studies from scientific journals, official government reports, and DSN-MUI fatwa guidelines to obtain a comprehensive and objective understanding of the role of Islamic financial institutions in Indonesia.

RESULTS AND DISCUSSION

1. Sharia-Based Non-Bank Financial Industry in Indonesia

The Sharia-based Non-Bank Financial Industry (NBFI Syariah) has a strategic role in supporting an inclusive and sustainable Islamic financial system. The main function of NBFI Syariah is as an intermediary institution that bridges the gap between fund owners and those who need financing, using contracts that are in accordance with sharia principles such as *mudharabah*, *musyarakah*, and *murabahah*. Unlike conventional institutions, NBFI Syariah does not charge interest but prioritizes profit-sharing and fairness. Additionally, NBFI Syariah plays a role in enhancing financial inclusion by providing access to financial services for underserved communities, such as micro, small, and medium enterprises (MSMEs), farmers, and rural communities. In terms of protection, Sharia NBFI offers Sharia-based risk mitigation solutions through takaful insurance, which is based on the spirit of mutual assistance and solidarity. Furthermore, Sharia NBFI also plays a role in managing religious social funds such as zakat, infaq, sadaqah, and waqf in a productive manner. The management of cash waqf through Islamic financial institutions enables these assets to be invested in productive sectors for the welfare of the community. Lastly, Sharia-compliant financial institutions serve as a hub for innovation in the development of technology-based financial products and services, such as Sharia-compliant fintech and halal crowdfunding, which expand access and make it easier for the public to obtain financial services aligned with Islamic principles. These functions collectively position Sharia-compliant financial institutions as a crucial pillar in the development of a fair, trustworthy, and sustainable economy for the community. (Hukum et al. 2024)

Non-Bank Financial Institutions (NBFI) are entities or institutions that carry out activities in the financial sector but are not classified as banks. These institutions provide various financial services such as financing, investment, insurance, and fund management, without being authorized to collect public deposits in the form of savings, as banks do. Unlike banks, NBFIs do not have the authority to accept deposits, and therefore obtain their funding through other mechanisms, such as issuing instruments in the capital market, borrowing from other financial institutions, or from capital contributions from investors. (Wiwoho 2014)

In Indonesia, the sharia-based NBFI sector has shown significant growth in recent years. This development reflects the increasing demand for financial services that are in accordance with sharia principles. Currently, there are various types of sharia-based non-bank financial institutions operating in Indonesia and

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contributing to the national sharia financial system. The following are some of the main forms of the sharia-based non-bank financial sector in Indonesia:

1. **Sharia Insurance Company**

Sharia insurance companies offer a variety of insurance products designed in accordance with Islamic law principles. The products offered generally include life insurance, health insurance, and property insurance, all of which are tailored to Sharia requirements. Sharia insurance, also known as mutual aid insurance, operates by promoting the concept of mutual assistance among individuals in facing risks, in line with the fundamental values of Islam that encourage solidarity and assistance to others in times of adversity.

The emergence of the concept of sharia insurance is part of the Muslim community's efforts to implement the Islamic economic system in a more tangible and structured manner. In Indonesia, the development of Islamic insurance has progressed alongside the growth of the Islamic financial sector in general, including the Islamic banking industry. The pioneer of Islamic insurance in Indonesia began in 1994 with the establishment of Asuransi Takaful Indonesia, which focused its services on sharia-based life insurance products. Following this, several other insurance companies developed Islamic business units in response to the Muslim community's demand for financial products compliant with sharia principles.

The emergence of Islamic insurance was further strengthened by the establishment of Bank Muamalat Indonesia in 1992 as the first Islamic bank in Indonesia. Although modern insurance practices were not known during the time of the Prophet Muhammad SAW, his companions, or the tabi'in generation, the principles of protection and social solidarity remained the foundation for the development of contemporary Islamic insurance models.

At the regulatory level, the Fatwa of the National Sharia Council (DSN) of the Indonesian Ulema Council (MUI) No. 21/DSN/MUI/X/2001 provides basic guidelines for Islamic insurance practices. This fatwa states that the contracts used in Islamic insurance must comply with Islamic principles and be free from elements of riba (interest), maysir (gambling), gharar (uncertainty), and coercion or exploitation. With this approach, Islamic insurance is positioned as an alternative insurance system that is more consistent with Islamic teachings in managing financial risks. (Sari and Samarinda 2024)

2. **Sharia Financial Technology (Fintech) Companies**

Sharia Fintech is a combination of sharia-based financing or financial services using technology, aimed at facilitating the public in financial matters. There are three models of fintech, namely: (Dawood et al. 2022)

a. **Third-Party Payment Systems**

This refers to payment mechanisms that utilize digital intermediaries, such as *online-to-offline* (O2O) schemes, *e-commerce* platforms, and mobile-based transactions. Examples include fund transfers through digital banking applications operated via smartphones.

b. **Peer-to-Peer (P2P) Lending Model**

A financing system that directly connects lenders (creditors) and borrowers (debtors) through a digital platform, without conventional financial intermediaries. The platform acts as a facilitator that simplifies transactions between individuals or entities.

c. **Crowdfunding**

A form of fundraising from the general public, either online or offline, aimed at financing specific projects. This model allows the public to collectively participate in supporting ideas or initiatives proposed by individuals, groups, or organizations.

Sharia-based fintech operates based on Islamic law principles established by the Financial Services Authority (OJK) and referenced in fatwas issued by the Indonesian Ulema Council (MUI). In practice, sharia fintech applies a number of contracts in accordance with sharia, including murabahah, musyarakah mutanaqisah, and ijarah wa iqtina.

In a *murabahah* contract, the fintech company acts as the party that first purchases the goods desired by the customer, then resells them with a profit margin agreed upon at the outset. Meanwhile, *ijarah wa iqtina* is a lease-to-own scheme, where the goods needed are first leased to the customer, and after all installments are paid in full, full ownership of the goods transfers to the customer.

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Musyarakah mutanaqisah is a form of declining partnership, where the fintech company and the customer jointly contribute funds to acquire a specific asset. Over time, the customer gradually purchases the ownership share held by the fintech company until the customer eventually obtains full ownership of the asset.

3. Special Sharia Financial Institutions

Specialized Islamic Financial Institutions are financial institutions that carry out specific activities outside the scope of general banking functions, yet remain grounded in the principles of Islamic Sharia law. These institutions play a strategic role in promoting economic growth for the community through financing productive sectors aligned with Islamic values, such as microfinance, small and medium-sized enterprise (SME) financing, and the management of religious social funds such as zakat, infak, sedekah, and wakaf (ZISWAF).(OJK 2023) Some examples of Special Sharia Financial Institutions include: (Sapudin, Najib, and Djohar 2017)

1. **Baitul Maal wat Tamwil (BMT)**: A sharia microfinance institution that functions as a financial and social institution. As *baitul maal*, BMT manages social funds for the community, while as *baitut tamwil*, BMT provides productive financing for its members under sharia schemes.
2. **Zakat Management Institutions (LAZ) and the National Zakat Management Agency (BAZNAS)**: Institutions responsible for professionally and sharia-compliantly managing zakat, including collection and distribution, as well as integrating it with community economic empowerment.
3. **Sharia Financial Institutions Receiving Cash Waqf (LKS-PWU)**: Financial institutions that have obtained official permission from the relevant authorities to receive, manage, and distribute waqf in the form of cash in accordance with sharia principles, with great potential for sustainable social investment.

These institutions play a crucial role in strengthening the national sharia financial ecosystem, particularly in enhancing financial inclusion and expanding public access to sharia-based financial products and services.

4. The Role of Sharia-Based Non-Bank Financial Institutions as a Banking Solution in Indonesia

The commercial financial sector plays an important role in driving positive growth in the real sector. Among the developing financial systems in Indonesia, Islamic financial institutions have become one of the most prominent entities with a strategic function. These institutions operate without applying an interest-based system, but instead use the principle of *profit and loss sharing*, and earn profits through margin mechanisms.(Fachrial Lailatul M 2018)

The main difference between the Islamic financial system and the conventional system lies in their operational methods, particularly in the application of Islamic principles. The Islamic financial system is operated in accordance with the provisions established by the fatwa of the National Sharia Council (DSN) of the Indonesian Ulema Council (MUI), ensuring that all products and activities are always in line with Islamic principles and do not violate applicable regulations.

Currently, Islamic financial institutions are experiencing significant growth and expansion. The range of products offered is also becoming increasingly diverse, aligning with societal needs and based on various Islamic contracts. Fatwas play a crucial role as the foundation for all activities and transactions in the Islamic financial sector. Therefore, during the fatwa formulation process, economic considerations must be taken into account to ensure that the resulting fatwas are not only sharia-compliant but also contribute to economic value enhancement. Thus, fatwas must be able to examine and assess all aspects of financial transactions to ensure they remain aligned with Islamic values and support the advancement of the real sector. (Sri Anugerah Natalina and Arif Zunaidi 2021)

The relationship between the financial sector—both conventional and Islamic—including non-bank financial institutions, contributes positively to economic growth. There is a reciprocal correlation, whereby the growth of Non-Bank Financial Institutions (NBFI), especially those based on sharia, strengthens economic development, and conversely, economic improvement will increase interest in these financial institutions. The sharia financial system is considered more resilient in facing economic turmoil than the conventional financial

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system. Therefore, the greater the role of non-bank financial industry players, especially in the Islamic sector, the greater their contribution to national economic growth. The following are some of the main functions performed by Islamic NBFIs as an alternative solution to the conventional banking system. The following are some of the main roles of the Islamic-based non-bank financial industry as a banking solution: (Moh Mardi 2021)

a. **Promoting Financial Access Expansion**
The Islamic financial sector plays a role in expanding access to financial services for the public, particularly those who are not yet reached by conventional financial institutions, by providing products that are in line with Islamic principles.

b. **Offering Creative Financial Products**
Sharia-based non-bank financial institutions tend to create innovative products that are in line with Islamic values, such as sharia-based microfinance, sharia bonds (sukuk), and halal investment schemes.

c. **Providing Diverse Options for the Community**
The presence of the Islamic finance industry provides consumers with alternatives to choose financial institutions that align with their moral and religious values, thereby enhancing comfort and trust in transactions.

d. **Promoting Sustainable Economic Growth**
Sharia-based non-bank financial institutions support sustainable economic development by focusing on investments that consider social and environmental aspects, in line with the principles of justice and balance in sharia.

e. **Providing Ethical and Trustworthy Transaction Solutions**
For people who prioritize integrity and ethics in financial transactions, the Islamic financial system is a trusted choice because it avoids usury and non-transparent or harmful transactions.

f. **Enhancing the Competitiveness of the Financial Sector**
The existence of the Islamic financial sector also promotes healthy competition within the financial industry as a whole, thereby driving improvements in service quality and cost efficiency for customers.

g. **Reaching Underserved Economic Sectors**
The Islamic finance industry expands financing coverage to sectors that are often overlooked by conventional institutions, such as Small and Medium Enterprises (SMEs) and the agricultural and rural economy sectors.

CONCLUSION

The Islamic Non-Bank Financial Industry (NBFI) plays a significant role in driving the growth and strengthening of Islamic banking in Indonesia. The existence of Islamic NBFI such as Islamic insurance, Islamic fintech, Islamic pension funds, and specialized financial institutions like BMT and LKS-PWU enables the expansion of inclusive, innovative, and Sharia-compliant Islamic financial services. The integration between ZISWAF institutions and Islamic NBFI is a key strategy in optimizing the utilization of religious social funds to support financing for the real sector and economic development for the community. Islamic NBFI has also played a role in providing alternative financing and investment options that are fair, ethical, and free from usury, gambling, and uncertainty. These advantages position Islamic financial institutions as a trustworthy solution for individuals who prioritize religious values in their financial activities. Furthermore, Islamic financial institutions contribute to financial inclusion by offering a variety of sharia-compliant financial products tailored to community needs and reaching economic sectors previously underserved by conventional financial institutions. In the context of sustainable development, the role of Islamic financial institutions is not only economic but also social and environmental. Therefore, synergy between Islamic banking and non-banking institutions,

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strengthening regulations, and enhancing Islamic financial literacy and innovation are key to supporting the advancement of a national Islamic financial system that is fair, sustainable, and oriented toward the welfare of the community.

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