

"COMPARATIVE GOVERNANCE PURE ISLAMIC BANK VERSUS ISLAMIC BANK ESTABLISHED BY COMMERCIAL BANKS"

Atika Lusi Tania, M.Acc.

Lecturer of the Faculty of Social Sciences and Humanities

Nahdlatul Ulama University

email: atikalusitania@gmail.com

ABSTRACT

A study in Pakistan Showed that there were significant differences between Islamic banks and Islamic banking established commercial banks on the Board of Directors and Syariah Advisory Council (Shahzad, 2014). In Indonesia, there is a purely Islamic banks set by the agency that had been principled sharia from the beginning, such as Bank Muamalat. However there are Islamic banks established by commercial banks, such as Bank Syariah Mandiri, BRI Syariah and the others.

Using a sample of Bank Syariah Mandiri (BSM) and Bank Muamalat, the purpose of this paper is going to compare the reporting of governance between the two banks to Determine Whether or not there are differences in the practice of governance.

The results show that, there are two major things that is different from the two banks items, namely, foundation and CG policies and principles of CG. Runway and Bank Syariah Mandiri CG policy is not based on the Law of the Republic of Indonesia No. 21 Year 2011 on the Financial Services Authority and Sharia Supervisory Board Fatwa Indonesian Ulama Council. Then the CG principle difference is the Bank Syariah Mandiri, there is no principle of Concern Attitude (Social Awareness).

Keywords: corporate governance, islamic bank, Indonesia.

I. PRELIMINARY

Good corporate governance (GCG) has been carried out by Islamic Banking in Indonesia as one of the foundations of the company to achieve its vision and mission, as well as to grow in a sustainable manner (sustainable growth) in the future. Good corporate governance will ensure asset management is done carefully and the company will run its business in accordance with ethical standards that apply to transparency and accountability are high.

Until February 2012, the Islamic banking industry has had a network of 11 Islamic Banks (BUS), 24 Sharia Business Unit (UUS), and 155 SRB, with total office network reached 2,380 offices spread in almost all corners of the archipelago. Total Islamic banking assets reached Rp149,3 trillion (BUS and UUS Rp145,6 SRB trillion and 3.7 trillion), an increase of 51.1% from the previous year. Islamic banking industry is able to demonstrate high growth accelerated to an average of 40.2% per year in the last five years (2007-2011), while the average growth of the national banks amounted to only 16.7% per year. Therefore, the Islamic banking industry dubbed as *'the fastest growing industry'* (www.bi.go.id).

A study in Pakistan showed that there were significant differences between Islamic banks and Islamic banking established commercial banks on the Board of Directors and Syariah Advisory Council (Shahzad, 2014). In Indonesia, there is a purely Islamic banks set by the agency that had been principled sharia from the beginning, such as Bank Muamalat. However there are Islamic banks established by commercial banks, such as Bank Syariah Mandiri, BRI Syariah and others.

Principles of *Corporate Governance* should also be the same because both are Islamic banks. However, there are some different things between the two banks are different from the establishment. Using a sample of Bank Syariah Mandiri (BSM) and Bank Muamalat, the purpose of this paper is going to compare the reporting of governance between the two banks to determine whether or not there are differences in the practice of governance.

II. LITERATURE

Corporate governance involves a set of rules and control systems, verification, assessment, and others, applied by the entities to achieve efficient and effective management, in order to ensure the achievement of the goals set. In this case, the concept of corporate governance should be linked to the risk management and internal control systems (Vasile, 2013).

A. Unique relationship in Islamic financial institutions

Agency problem in Islamic financial institutions are unique from other financial institutions. The different types of operations and contracts in Islamic banks which resulted in widening separation and control problems that lie under the agency theory. Managers in Islamic banks not only maximize shareholder keutungan but have an obligation to work under the rules and regulations of Sharia (Archer *et al.*, 1998). The need to comply with Shariah principles basically make the difference between Islamic finance and other financial (Sarker, 1999). The account holder of investment and Islamic banks have a contract to create a bank account holders rather than following the investment decision making process and the management of their funds. Therefore, managers have the opportunity to share in profits and losses. So the conditions and contracts in Islamic bank lowered the problems associated agency (Karim, 2001). The banks providing the service in accordance with sharia should make checks become separated because this is an institution that not only seek to maximize their investment fund shareholders, but also to take all measures in accordance with Shariah compliance (Safieddine, 2009).

Another reason to study and search for solutions agency problems in the Islamic financial institution described by Hassoune and Volland (2005): a good level of growth in Islamic banks. This growth even exceeded the growth rate of the conventional banking which allows international finance for transferring ownership in that direction. The growth rate of Islamic banks is expected to increase from 10 percent to 15 percent per year. Islamic banks experience the highest growth rates and their expansion has reached to 50 countries and this figure represents not only the Muslim countries. These reasons highlight the fact that the agency problem bigger and dynamics of Islamic banks should be handled separately from other agencies (Safieddine, 2009).

B. Corporate governance in Islamic banking

Conventional banks emphasize the benefit but Islamic banks keep the profits in line with Islamic law (Archer et al., 1998). *The concept of Islamic Corporate Governance (ICG)* is not so detailed (and Bhatti Bhatti, 2009).

Kuran (2005) states that the history of Islam does not express the concept of "corporation" and the Muslims from the earliest times to develop his organization called "endowments" actual credentials used for the welfare of the community such as drinking water supply, help the poor in the difficult times, giving clothing for the needy, and helping pilgrimage. Endowments different from the corporation because it is run by a single person and governance carried out by the same person. Although experts believe that the concept of the corporation is not in the rules of Islam, the Koran and the life of the Prophet (SAW) has explained how to do each and every thing including the decision-making process in one's life, and the way is called the Shari'ah.

Islamic Corporate Governance (ICG) means a company governed by Islam and Sharia, and companies need to consider the effect of shari'ah policy and practice policies and practices of the company (Bhatti and Bhatti, 2009). Governance within the corporate structure of Islam is done in such a way that each person associated with the actual bank to bank shareholders, which implies that the bank's success means the success of the shareholder (El-Gamal, 2005).

C. Islamic corporate governance framework

1. Decision-making

Within the framework of Islam of ICG, decision-making is done through the "Shura", which means that the clerical body is formed that has a command on the rules and regulations as well as the ideals of Islam. Agency's Board of Trustees of Islamic scholars (DPS). DPS ensure that all activities in the organization in accordance with Islamic law (Hassan *et al.*, 2009).

2. Disclosure and transparency

Islam has laid stress on the disclosure of information. Said account is used several times in the Qur'an and means that man is responsible to God. He has given man with countless blessings that he should do the economic and financial activities with fairness and honesty. Accountability should be there for the people. All the necessary information must be transparent to those related to the truth that will be maintained throughout the enterprise (Bhatti and Bhatti, 2009).

3. Audit

Audits to make sure that every activity in the company is done in a way that is obedient to Sharia. This informs the management and Board of Directors on the rules of Sharia, in particular economic and financial decisions. It has also developed a report to demonstrate to shareholders if management is following the rules of Sharia or not. It also ensures that Zakat is distributed fairly (Lewis, 2005).

4. Directors

ICG means corporate governance is run by an Islamic perspective. The Board of Directors plays an important role in this governance

practices. According Aktaruddin *et al.* (2009), an increase in the number of Directors means increased disclosure. He also has said that if the number of independent non-executive directors on the board is higher than the probability of transparency within the organization. The Board of Directors is an important role for the company as it works to stakeholders and ensure that the rights of shareholders are not threatened (Hassan *et al.*, 2009).

III. DISCUSSION

Here we will discuss some of the differences between the corporate governance practices established Islamic banks and conventional banks Islamic banks pure. Banks that will be compared is the Bank Syariah Mandiri (BSM) and Bank Muamalat.

Table 1. Comparison of Bank Syariah Governance

No.	Element Corporate Governance	Bank Syariah Mandiri	Bank Muamalat
1	<p>GCG Implementation Self Assessment</p>	<p>BSM conducting GCG self assessment as a form of evaluation of the implementation of corporate governance principles in the BSM. Self-assessment is divided into Internal and External Self Assessment Self Assessment.</p> <ol style="list-style-type: none"> 1. Internal Self Assessment (ISA), GCG is the implementation of an independent testing using the standard internal checklist Bank. ISA implementation is done on a quarterly basis to assess how the implementation of corporate governance principles in the work unit that the end result is the index to measure the level of compliance GCG GCG implementation in the work unit. Based on the measurement results throughout 2013. ISA BSM GCG implementation in the workplace unit included in the category of "Obey". 2. External Self Assessment (ESA), is the implementation of an independent testing using the checklist external GCG (parameter) in according the provisions of Bank Indonesia. 	<p>Based on Bank Indonesia Regulation (PBI) No. 11/33 / PBI / 2009 and Circular Letter of Bank Indonesia (SEBI) No.12/13 / DPbS concerning Implementation of Good Corporate Governance (GCG) For Islamic Banks and Sharia Business Unit, and in order to improve the quality of GCG implementation at all levels and the level of organization of the company, Bank Muamalat Indonesia annually perform a self-assessment is a comprehensive review of the adequacy of implementation GCG.</p>

2	Sharia Supervisory Board (DPS)	BSM as Islamic Banks in the operations constantly supervised by a Shariah Supervisory Board. DPS as representative DSN - MUI on Islamic financial institutions are independent. The whole guidance and funding products, financing and operation BSM must be approved by the DPS to ensure compliance with Islamic principles. The same number of members, 3 people.	Dual Positions independence and Sharia Supervisory Board In accordance with regulation 11/3 / PBI / 2009 dated 29 January 2009, inter alia stipulated that DPS members at least two (2) persons and at most 50% of the number of members of the Board of Directors. The number of members of Bank Muamalat Indonesia DPS over compliance with these provisions have as many as three (3) persons.
3	Strategy fore	There is no.	<ol style="list-style-type: none"> 1. Bank Muamalat Indonesia <i>Strategic Roadmap</i> 2009 to 2020. 2. Initiatives and Strategic Steps.
4	Shareholdings of the Board of Commissioners	Up to December 31, 2013, the Board does not have a stake in both BSM and in other Company.	Shareholdings of the Board of Commissioners Achieve 5% or More of Paid-in Capital in Other Companies.
5	Runway and GCG Policy	Provision applies both to internal and external.	Equally, except: <ol style="list-style-type: none"> 1. Law of the Republic of Indonesia No. 21 Year 2011 on the Financial Services Authority; 2. Sharia Supervisory Board Fatwa-Indonesian Ulema Council.
6	GCG	BSM corporate governance based on the Bank Indonesia Regulation No.11 / 33 / PBI / 2009 dated December 7, 2009 and Bank Indonesia	Bank Muamalat basic principle there are 6 basic principles:

		<p>Circular Letter No.12 / 13 / DPbS April 30, 2010 on the Implementation of Good Corporate Governance for BUS and UUS that 5 application of basic principles:</p> <ol style="list-style-type: none"> 1. Transparency 2. Accountability 3. Responsibility 4. Professional and Fairness 	<ol style="list-style-type: none"> 1. Transparency 2. Accountability 3. Responsibility 4. Professional 5. Fairnes 6. Social Awareness
7	Governance Structure and Mechanism	Same	Same
8	The results of the implementation of GCG Self Assessment	<ol style="list-style-type: none"> 1. Self Assessment GCG special annual BUS period of 2013. 2. GCG self assessment consolidated parent company 	Annually conduct a comprehensive <i>self-assessment</i> of the adequacy GCG implementation.
9	Rating Self assesement	Good	Very good

Source: Corporate Governance Report of Bank Syariah Mandiri and Bank Muamalat in 2013, the data is processed.

Based on Table 1 above, there are 7 (seven) elements of corporate governance differ between Bank Syariah Mandiri and Bank Muamalat. The difference is one of them on *Corporate Governance Self Assessment* palaksanaan. Bank Syariah Mandiri is divided into two categories *self assessment* while Bank Muamalat only one that is every year a comprehensive manner.

In addition, there are two major things that is different from the two banks, namely, foundation and CG policies and principles of CG. Runway and Bank Syariah Mandiri CG policy is not based on the Law of the Republic of Indonesia No. 21 Year 2011 on the Financial Services Authority and Sharia Supervisory Board Fatwa-Majelis Ulama Indonesia. Then the CG principle difference is the Bank Syariah Mandiri there is no principle of Concern Attitude (*Social Awareness*).

To the Board of Directors and Sharia Supervisory Board (DPS), there is no difference from the Bank. This means that for the context in Indonesia is not the same as in the context of Pakistan.

IV. CONCLUSIONS AND RECOMMENDATIONS

Based on the above discussion, there are 7 (seven) elements of corporate governance differ between Bank Syariah Mandiri and Bank Muamalat, among others.

- a. Differences in *Corporate Governance Self Assessment* implementation. Bank Syariah Mandiri is divided into two categories *self assessment* while Bank Muamalat only one that is every year a comprehensive manner.
- b. Base and CG policies and principles of CG. Runway and Bank Syariah Mandiri CG policy is not based on the Law of the Republic of Indonesia No. 21 Year 2011 on the Financial Services Authority and Sharia Supervisory Board Fatwa-Majelis Ulama Indonesia.
- c. Then the CG principle difference is the Bank Syariah Mandiri there is no principle of Concern Attitude (*Social Awareness*).
- d. To the Board of Directors and Sharia Supervisory Board (DPS), there is no difference from the Bank. This means that for the context in Indonesia is not the same as in the context of Pakistan.

Based on the conclusion that can be formulated several recommendations.

- a. For Islamic banks to use the principles of *Corporate Governance (CG)* the same based on the Law of the Republic of Indonesia No. 21 Year 2011 on the Financial Services Authority and Sharia Supervisory Board Fatwa-Majelis Ulama Indonesia.
- b. The research sample consists of only two Islamic banks, therefore it needs to be expanded again in order to represent CG Islamic banks in Indonesia.

BIBLIOGRAPHY

- Aktaruddin, M., Hossain, MA and Yao, L. (2009), "Corporate governance and voluntary disclosure in corporate annual reports of listed Malaysian firms", *The Journal of Applied Management Accounting Research*, Vol. 7 No. 1, pp. 1-20.
- Archer, S., Karim, RAA and Al-Deehani, T. (1998), "Financial contracting, governance structures and the accounting regulation of Islamic banks: an analysis in terms of agency theory and transaction cost economics", *Journal of Management and Governance*, Vol.2No. 2, pp. 149-70.
- Bhatti, M. and Bhatti, I. (2009),"Development in legal issues of corporate governance in Islamic finance", *Journal of Economic & Administrative Sciences*, Vol. 25, pp. 67-91.
- El-Gamal, M. (2005), "Islamic bank corporate governance and regulation: a call for mutualization ", *unpublished paper, Rice University*, Houston, TX, September.
- Hassan, T., Mohamad, S. and Bader, MKI (2009), "Efficiency of conventional versus Islamic banks: evidence from the Middle East", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 2 No. 1, pp. 46-65.
- Hassoune, A. and Volland, E. (2005),"Islamic finance comes of age", *BusinessWeek*, available at: www.businessweek.com.
- Karim, RAA (2001), "International Harmonization of accounting, banking regulation, and Islamic banks ", *The International Journal of Accounting*, Vol. 36 No. 2, pp. 169-93.
- Khuram Shahzad Bukhari M. Hayat Awan Faareha Ahmed, (2013), "An evaluation of corporate governancenpractices of Islamic banks versus Islamic windows of conventional banks banks", *Management Research Review*, Vol. 36 Iss 4 pp. 400-416.
- Kuran, T. (2005), "The absence of the corporation in Islamic law: origins and persistence", *American Journal of Comparative Law*, Vol. 53, pp. 785-834.
- Lewis, MK (2005), "Islamic corporate governance ", *Review of Islamic Economics*, Vol. 9, pp. 5-29.
- Safieddine, A. (2009), "Islamic financial institutions and corporate governance: new insights for agency theory ", *Corporate Governance: An International Review*, Vol. 17 No. 2, pp. 142-58.
- Sarker, AA (1999), "Islamic business contracts, agency problem and the theory of the Islamic firm ", *International Journal of Islamic Financial Services*, Vol. 1 No. 2, pp. 12-28.
- Vasile, PhD Professor Emilia. 2013. Corporate Governance In The Current Crisis. *Internal Auditing & Risk Management. Anul VIII, Nr.2 (30), June 201.*

www.bi.go.id

www.syariahmandiri.co.id/category/gcg/

www.bankmuamalat.co.id/files/download/433fa9a1e13a117