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THE DEVELOPMENT OF ISLAMIC FINANCE IN BRUNEI DARUSSALAM AND INDONESIA

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FOREWORD

Alhamdulillah, with the grace and guidance of Allah SWT, may we always be given health. Blessings and greetings are always bestowed upon the Prophet Muhammad S.A.W.

This book is part of this book is an effort to deepen ideas and in-depth studies of various theories related to Brunei Darussalam's uniqueness in its stricter and less open Islamic society policies. Indonesia is an example of a country in Southeast Asia where culturally Islamic society has developed very openly and dynamically.

From this idea, this material is then divided into several parts: an introduction that briefly explains the academic concerns about the development of Islamic society and Islamic finance in Brunei and Indonesia.

The next part explains the theories related to Islamic society and Islamic finance.

The third and fourth parts discuss a brief description of Brunei Darussalam and Indonesia from the demographic, socio-cultural, and political aspects. Then, the role of the state, Islamic society, and universities in encouraging Islamic finance in Brunei Darussalam and Indonesia is clarified.

We would like to thank Mr Roslan Haji Saban and his family and Haji Muhammad, who have helped with accommodation and transportation while in Brunei Darussalam. Also, exceptional

thanks to Prof. Dr. Mohd Hairul Azrin Haji Besar, who has given a speech at the University of Brunei Darussalam and provided references so that we can also visit the Sultan Sharif Ali Islamic University (UNISSA).

Although there are limitations and shortcomings in writing this book, it is hoped that it can be enjoyed by parties who need academic information related to the study of the development of Islamic finance in Brunei Darussalam and Indonesia.

This simple book will be helpful to the community. Amen.

Purwokerto, September 2024

The Authors

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INTRODUCTION

Brunei Darussalam has an area of around 5,764 km² and a population of 459,500 in 2019. Only 331,800 residents are native Bruneians; 33,500 are foreigners with permanent resident status, and 94,200 have temporary resident status. Thus, Brunei's native population is less than 1% of Central Java's, which will number around 37 million people in 2022 (BPS Central Java, 2022).

In terms of composition, Islamic society in Brunei is the majority, with 67% Muslim, 13% Buddhist, 10% Christian, and 10% other. Even though Brunei is an Islamic country that is firmly based on the 1959 Constitution, which stipulates that the Brunei state is a constitutional monarchy that is officially Muslim and ethnically Malay, the constitution guarantees freedom of religion, while Muslims are prohibited from converting to other religions. The Ministry of Religion is stringent in enforcing Islamic practices, and special religious officers investigate every Muslim violation of Islamic Law. For example, meat consumption is only permitted with the approval of the state's religious authorities, and alcohol is prohibited.

The Islamic community in Brunei was also formed in the Malay Islam Beraja (MIB) ideology, namely Malay and Islam, as core indicators in determining the identity and flow of political and social policies in Brunei. MIB is a new pioneer from the classical sultanate period when the confirmed Western

colonization strengthened society to maintain Islamic values and the essence of Malays in its country. The implementation of MIB makes Brunei an Islamic country that strictly applies actual Islamic values compared to Indonesia and Malaysia, the largest Muslim-majority but secular countries in Southeast Asia. The Sultan's firmness, accompanied by a fair and equitable welfare policy for all people, received support from non-Muslim circles to follow the harmonious implementation of MIB.

Brunei became independent from the British Colony in 1984, but banking had developed since 1935 when the first bank was established, the Post Office Savings Bank. Meanwhile, the first Islamic bank, Tabung Amanah Islamic Brunei (TAIB), was established in 1992 at the encouragement of Sultan Bolkiah during a royal speech at the Islamic Religious Council Meeting in September 1990. The Sultan said establishing an Islamic bank was necessary because of the "fardhu kifayah" obligation for the State of Brunei Darussalam and every Muslim country. In 1993, "Bank Internasional Brunei" changed its name to Bank Islam Brunei to manage the community's financial affairs by the noble ideals of Islam.

When Islamic finance began to grow in the insurance sector in 1993, two takaful operators were established: TAIB Islamic Insurance and Takaful Brunei Darussalam. The Brunei government is committed to developing Islamic finance in the country.

The field of Islamic finance is increasingly strategic, referring to the Sultan, who has declared ambitious economic goals under the vision or slogan "Wawasan 2035" (Outlook of 2035). This slogan aligns with another new theme, the Nation of Dhikr, a "nation that always remembers Allah". One of the expected fields is "Islamic economics," the government realized this by establishing the Sultan Sharif Ali Islamic University (UNISSA) in 2007. UNISSA has established Law, Sharia law, Sharia economics,

and Islamic finance programs. The Sultan declared that UNISSA graduates must be a “driving force” in the implementation of the SPCO (Shariah Penal Code Order) and “support government administration”.

This research is feasible to carry out because it refers to several studies that focus on Brunei with qualitative or quantitative approaches, such as Amr (2022), Teramura (2022), Ali et al. (2019) College as an educational process that can provide human resources, as well as the government as the primary policy maker in the development and establishment of Islamic finance in Brunei Darussalam.

This research will also examine themes related to locations in Indonesia. There are similarities in the Islamic community between Brunei Darussalam and Indonesia. Namely, Muslims are the majority, even though from a political aspect, Indonesia has the Pancasila symbol and the 1945 Constitution, while Brunei Darussalam is an Islamic monarchy country.

There is no mistaking it if the Indonesian people yearn for an economic system based on Islamic or Sharia law, especially the law of financial management, which wants financial institutions that follow their religion in an easy-to-understand context, namely the economic system based on the rules and values of the Islamic holy book al-Quran and the sunnah of the apostle.

The development of Islamic finance, especially Islamic banking, and education about Islamic economics are also quite good. Likewise, the government has a role in developing Islamic finance and higher education, which has Islamic economics and banking study programs. Almost all Islamic universities, state universities, and those under the Ministry of Religion have Sharia economics study programs.

Meanwhile, recently, the government implemented a policy of merging 3 Islamic banks, namely BRI Syariah, BNI Syariah,

and BTN Syariah, to become Bank Syariah Mandiri. This case is done to increase the liquidity of Islamic banks at the national level. Islamic banks play an essential role as facilitators in all economic activities in the halal industry ecosystem. The Islamic banking industry in Indonesia itself has increased and significantly developed in the past three decades. Product innovation, service improvement, and network development show a positive trend from year to year. The merger process is a milestone that will open up many new opportunities to support the national economy. Each Islamic bank has its background and history, thus strengthening BSI's position in the future. (Aransyah, 2021).

Based on this data, this study will also make a case study with a theme located in Indonesia as something interesting to do. The problem formulation is focused on the following questions:

1. What is the role of the Islamic community in encouraging the development of Islamic finance in Brunei Darussalam and Indonesia?
2. What is the role of affirmative education in Islamic economics and finance material in Brunei Darussalam and Indonesia?
3. How do the regulations issued by the government encourage the growth of Islamic finance in Brunei Darussalam and Indonesia?

Meanwhile, several previous studies that examined Islamic finance in Brunei Darussalam are;

Primary (2023). An essential article about Islamic society in Brunei Darussalam. This article describes the history and development of implementing Islamic Melayu Beraja (IMB) at the state and society level in Brunei, Malay, non-Malay, Muslim, and non-Muslim. Implementing MIB makes Brunei a valid Islamic country that implements strict Islamic values. The Sultan's firmness, accompanied by a fair and equitable welfare policy for

all people, received support from non-Muslim circles to follow the harmonious implementation of the MIB. Even though Brunei is a non-democratic country, prosperity and harmonization of a multicultural society can be achieved if there is consistency and seriousness in implementing existing development policies.

Amr (2022) conducted qualitative and literature on the growth of Islamic finance in Brunei Darussalam. The results show that the Sultanate of Brunei has provided a strong foundation for developing the Islamic finance industry. However, experts suggest that the Sultanate shift its focus to exporting expertise and consolidating its global role in Islamic banking.

Teramura (2022) found that Brunei's development of Islamic finance still needs to be improved regarding international commercial arbitration (ICA). However, Teramura sees that Bandar Seri Begawan has excellent potential to become a forum for developing Islamic finance in Southeast Asia, especially for Malaysia and Indonesia. Brunei is a Malay Muslim country where Malay is used in business transactions and legal processes. Like most regions in Indonesia and Malaysia, Brunei follows the Shafi'i school of jurisprudence, and its centralized Sharia Financial Supervisory Board supports the application of Shafi'i principles in business by providing advice on Sharia issues related to Islamic Finance transactions.

Matsawali et al. (2012). This study focuses on respondents' understanding of takaful and conventional insurance preferences. The majority of Bruneian people prefer sharia insurance. Still, their knowledge about this type of insurance is limited to knowing that Sharia is Islamic insurance. Islamic regulations will carry out the procurement and approach.

Ali et al. (2019). His study focuses on the growth of Fintech in Malaysia and Brunei in the face of advanced technology such as Blockchain, the Internet of Things (IoT), and artificial

intelligence (AI). The results show that Fintech has the potential to have a significant impact on the conventional and Islamic financial industry. The response and reaction of the Islamic finance industry to the emergence of Fintech and its potential impact is prolonged compared to the traditional sector. This study has demonstrated vital points, including the need for Islamic financial institutions to address the growth of Fintech, especially in Malaysia and Brunei.

Ghozali (2019) study literature on the development of Islamic banks in Brunei. It was found that the forerunners of Islamic banking in Brunei began in the mid-1980s when the National Bank of Brunei merged with the Island Development Bank (IDB) under the name International Bank of Brunei. This bank was the only local bank established in Brunei at that time. The Sultan of Brunei seriously encouraged the growth of Islamic finance in 1990 in a royal speech at the Islamic Religious Council Meeting, which ordered the Islamic Religious Council to develop Islamic finance seriously. Since that poem, many meetings have been held by the Islamic Religious Council, which resulted in the formation of a committee known as the Establishment of the Islamic Bank Committee.

Yaacob (2017). The growth and development of Islamic finance in Brunei can be categorized into three (3) categories: capital markets, Takaful, and banking. Brunei applies a dual banking system that equips strategic balance. Banks in Brunei have a reputation for high capital adequacy ratios (CAR). In 2015, the average CAR in the banking sector was 21.5%, far above the minimum requirement of 10%. The quality of banks in Brunei Darussalam is reflected in their unanimous investment grade credit rating.

Hassan & Chachi (2008) studied the state of corporate governance in Islamic financial institutions (Islamic banks and

Takaful) in Brunei Darussalam, which focused on the role of the Sharia Supervisory Board (DPS) to provide added value to the Board of Directors and corporate governance, in the context of Islamic financial institutions (IFS). Empirical results show that Brunei Darussalam's overall level of compliance with four IFI corporate governance issues is above 90%.

Ebrahim and Joo (2001) studied the reality of the Islamic banking system in Brunei Darussalam from the perspective of modern financial intermediation theory and Islamic financial contracts. The limited information regarding Brunei Darussalam's banking system indicates that the first phase of the Islamic banking experiment has been successful, as Islamic banks control around 11.5% of the market share. In the second phase, Islamic banking gradually consolidates retail banking with investment banking, establishing meaningful relationships with local and foreign institutions and using *ijtihad* in modern financial engineering to design loans optimally while reducing risk exposure. However, Islamic banking development in Brunei still faces many challenges.

Some of the studies above has been very dynamic in examining the development of Islamic finance in Brunei using various qualitative or quantitative approaches. Still, some literature needs more in-depth, such as Ghozali (2019) and Amr (2022). There is a very reputable one, namely Ebrahim and Joo (2001), but this opinion was carried out in 2001, and it requires re-actualization of the data to be more updated. Meanwhile, study that comprehensively explores the role of Islamic societies and universities in the development of Islamic Finance in Brunei has yet to be found.

