



## RESEARCH ARTICLE

## Conventional and Sharia Banking Operational Systems in South Sulawesi

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**ABSTRACT**

This study aims to find out: (1) Operational systems of conventional and sharia banks in To know, analyze and find out the essence of the operational systems of conventional and sharia banking in South Sulawesi. (2) to know, analyze and find out the system of operational activities of conventional and sharia banks in South Sulawesi. (3) To know, analyze and find obstacles and efforts of Sharia Banking in order to develop like Conventional Banks. The design of this study uses a quantitative approach, with the type of research in the form of empirical normative. The results of the study show that: (1) The essence of conventional and sharia banking operational activities reviewed from the philosophical, juridical and sociological aspects has not reflected the ideal values because in practice Islamic banks are still found to be irregularities, especially in matters related to sharia compliance. (2) The operational system used by conventional banks is to use a credit or loan interest calculation system (investment note), the high and low interest rates in the community because they are influenced by various factors, namely: Public liquidity, Expectations, Inflation, the amount of domestic interest rates and expectations of changes in exchange rates and premiums on risk, while Sharia banks are operationally based on the concept of Islamic muamalah which is in accordance with the lines that have been stipulated in the Qur'an and As-Sunnah, banks that operate in accordance with Islamic sharia principles. (3) Some of the obstacles and problems faced in the development of Sharia Banks in South Sulawesi can be overcome by the role of educational institutions which in this case do play a role as a human resource printer, the development of a network of Islamic bank offices is also needed in order to expand the range of services to the community. The number of bank offices will also increase business efficiency and increase competition towards improving the quality of public services and encouraging innovation in Islamic banking products and services.

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**INTRODUCTION**

The development of the banking system in Indonesia shows significant dynamics in line with the increasingly complex economic growth and people's needs for diverse financial services. As one of the sectors that has a vital role in the economy, banking functions as an intermediary between parties who have surplus funds and parties who need financing for various purposes, both consumptive and productive. In Indonesia, the banking system continues to evolve with regulations that are adjusted to the challenges of the times, increasingly sophisticated technological innovations, and increased public awareness of the importance of financial inclusion.

In South Sulawesi Province, which is one of the centers of economic growth in eastern Indonesia, banking plays a strategic role in supporting regional economic activity. South Sulawesi has diverse economic sectors, ranging from trade, agriculture, fisheries, industry, to services, all of which require optimal financial service support. The presence of a strong and competitive banking system in this

region is essential to encourage investment, expand access to credit for businesses, and improve the overall welfare of the community.

The banking system in South Sulawesi consists of two main types, namely conventional banking and Islamic banking. Conventional banking has long been the backbone of the economy with a business model based on an interest-based system. This system refers to the principle of profit-oriented, where banks benefit from the difference in interest rates between funds collected from the public in the form of savings and deposits and funds channeled in the form of credit. The legal basis governing conventional banking operations is contained in Law Number 7 of 1992 concerning Banking, which was later amended by Law Number 10 of 1998. This law provides a foundation for banks in carrying out their functions, both in terms of raising funds, channeling credit, and providing various other financial services.

On the other hand, Islamic banking has developed as an alternative for people who want a financial system based on sharia principles. Islamic banking operates using a contract-based system in accordance with Islamic principles, such as profit sharing (*mudharabah*), partnership (*musharakah*), and sale and purchase (*murabahah*). Unlike conventional banking that uses interest as the main mechanism in financial transactions, Islamic banking prioritizes a system that is free from usury, *gharar* (uncertainty), and *maysir* (speculation). The regulation that serves as the legal basis for Islamic banking operations in Indonesia is Law Number 21 of 2008 concerning Islamic Banking. In addition, Bank Indonesia and the Financial Services Authority (OJK) also issued further regulations to ensure compliance of Islamic banking with sharia principles, such as Bank Indonesia Regulation (PBI) Number 9/19/PBI/2007 concerning Implementation of Sharia Principles in Fund Raising and Fund Disbursement Activities and Services of Islamic Banks, and Financial Services Authority Regulation (POJK) Number 12/POJK.03/2021 concerning Commercial Banks.

Along with the increasing public awareness of Islamic economics, Islamic banking in South Sulawesi is experiencing rapid growth. Several major cities in the province, such as Makassar, Parepare, and Gowa, have become centers of growth for the Islamic banking industry, with an increasing number of Islamic bank branch offices and an increasing variety of sharia-based products and services. Islamic banking not only attracts individuals who want to manage their finances in accordance with Islamic principles, but it is also an option for businesses and industrial sectors that want to obtain financing with a fairer and more welfare-oriented scheme.

Nevertheless, both conventional and Islamic banking face various challenges in South Sulawesi. One of the main challenges is the limited level of financial literacy, especially in rural areas, so that many people do not understand the benefits and mechanisms of banking services optimally. In addition, competition between conventional and Islamic banks is getting tighter, especially in terms of product innovation, competitive interest rates or profit sharing, and the use of digital technology in banking services. Evolving regulations are also a challenge for the banking industry, where banks must be able to adjust to new policies issued by the government and related authorities.

By understanding the development and challenges faced by conventional and Islamic banking systems in South Sulawesi, efforts can be made to optimize the role of banking in supporting regional economic growth. Therefore, this study aims to analyze the operational systems of conventional and Islamic banking in South Sulawesi, with a focus on the mechanism of raising funds, channeling financing, and business strategies applied by each type of banking. By understanding the characteristics and differences in the operational systems of both, it is expected to provide relevant recommendations for the development of the banking industry in this region.

## **RESEARCH METHODS**

Research has another term or known as research. Research comes from the English language, namely research which comes from the word *re* (return) *search* (search), thus research that has the term research can be interpreted as looking back. The research activity is based on the curiosity of a person who is then referred to as a researcher in carrying out his research activities. Research is a form of expression of curiosity that is carried out in the form or activity of scientific research. This research is carried out with a sense of confidence that the object of research will be researched by finding out the causes and effects that arise or occur in the object of research.

Based on the various types of research that exist, the research methods that can be used are as follows:

### **Normative Law Research**

"Normative Legal Research is legal research conducted by researching literature or secondary data". "Normative legal research is also called doctrinal legal research. According to Peter Mahmud Marzuki, normative legal research is a process to find a legal rule, legal principles, and legal doctrines to answer the legal issues faced. "In this type of legal research, often the law is conceptualized as what is written in laws and regulations or the law is conceptualized as a rule or norm which is a benchmark for human behavior that is considered appropriate".

### **Empirical Legal Research**

It is a research method that reviews the function of a law or rule in terms of its application in the scope of society. This research method is also called sociological legal research, this is because the method in this study is also conducted research related to people in living a relationship in life related to other people or society. So that the reality that occurs is taken in a society, legal entity or government body. According to Ronny Soemitro, empirical or sociological legal research is legal research with primary data or data obtained directly from the source. In empirical research, the main thing that is studied is primary data.

### **Normative-Empirical Law Research**

It is a research method that in this case combines normative legal elements which are then supported by the addition of data or empirical elements. "In this normative-empirical research method, it is also about the implementation of normative legal provisions (laws) in their actions in every certain legal event that occurs in a society".

In normative-empirical law research, there are three categories, namely:

Non Judi Case Study "is a legal case study approach that is without conflict so that no one will interfere with the court".

### **Judicial Case Study**

This judicial case study approach is a legal case study approach due to conflicts so that it will involve court intervention to be able to provide a settlement decision".

Live Case Study. This live case study approach is an approach to a legal event that is still ongoing or has not yet ended".

### **Types and Data Sources**

#### **Data type**

The types of data from this study are as follows:

Primary data is data on information or matters related to the research concept obtained directly through interviews with resource persons. The data obtained from the primary data is then reprocessed by the researcher.

Secondary Data is additional data obtained from various sources related to research, such as articles, journals, government regulations, laws. The data obtained from secondary data does not need to be reprocessed.

#### **Data Source**

The source of data from this study is the subject from which the data can be obtained. The data sources in this study are as follows:

Informants are people who are really involved or undergo the service system evaluation process. Informants are determined using the snowball sampling technique to obtain information or data that is considered necessary and supportive, as revealed by Sugiyono that the snowball sampling technique is a sampling technique of data sources, which at first the number is a little bit over time becomes large. This is done because from the small number of data sources, it has not been able to

provide satisfactory data, so look for other people who can be used as data sources. Thus, the number of data source samples will be larger, like a rolling snowball, over time it will become larger.

Documents are documents related to management in Conventional Banking and Sharia Banking.

### **Research Population and Sample**

**Population.** According to Arikunto, "population is the entire object of research". Research can only be conducted for a finite population and the subjects are not too many. The population in this study is conventional banks and Sharia banks in South Sulawesi.

**Sample.** According to Sugiyono, the sample is: "part of the number and characteristics possessed by the population. When the population is large and research is impossible to study everything that is in the population. For this reason, the sample taken from the population must be really representative (representative)"

### **Data Collection Techniques**

The data collection method used by the researcher is as follows:

#### **Observation**

Nasution in Sugiyono (2017:226) states that the observation or observation method can be defined as focused attention to an event, symptom, or something. Scientific observation is focused attention to a symptom, event or something with the intention of interpreting it, revealing the factors that cause it, and discovering the rules that govern it. In this study, the researcher conducted observations of conventional banks and Sharia banks in the city of Makassar to observe firsthand how the banks operate.

#### **Interview**

Esterbeg in Sugiyono stated that an interview is a meeting of two people to be able to exchange information and ideas through questions and answers, so that meaning can be constructed in a certain topic. In this study, the researcher will conduct interviews with parties involved in the operation of conventional/sharia banks.

The informants in this study are:

Manager of Conventional Banks and Bank Syariah Indonesia Cab. Makassar

Sharia Supervisory Board (DPS) of Bank Syariah Indonesia

Staff and customers of conventional banks and Indonesian Islamic banks as many as 5 people each

#### **Documentation**

This technique is used to collect various data that contains certain information sourced from written documents. Data in the form of documents like this can be used to dig up information that happened in the past. Documentation can be referred to as a complement to interview techniques because through existing documents, researchers can collect even more data.

### **Data Analysis Techniques**

**Data** The data analysis technique used in this study is a qualitative data analysis technique by means of context analysis from literature review and statement analysis from interview results from informants. In conducting data analysis, the researcher refers to several stages described by Miles and Huberman in (Sugiyono 2017:247) which consists of several stages as follows:

**Data reduction** Data reduction means summarizing, selecting the main things, focusing on the important things, looking for themes and patterns, so that the data that has been reduced will provide a clearer picture, and make it easier for researchers to collect further data and search for it when needed. Choosing which information is considered appropriate to the problem that is the center of research in the field.

**Data presentation** Data presentation Data that is often used in qualitative research is with narrative text. According to Miles and Huberman in (Sugiyono 2017:149) the presentation of data will make it easier to understand what is happening, plan next based on what has been understood. The data

obtained from in-depth interviews are collected and then drawn conclusions so that they are presented in the form of descriptive texts.

**Drawing Conclusions (Conclusion Drawing)** The third step in qualitative data analysis is drawing conclusions. Conclusions or those that seek the meaning of explanatory patterns, possible configurations, causal flows and propositions. Conclusions are drawn carefully by verifying in the form of reviewing records in the field so that the data is tested for validity. The results of the interview from the informant were then drawn according to the researcher's problem and objectives.

## **RESEARCH RESULTS AND DISCUSSION**

### **Operational Systems of Conventional Banking and Sharia Banking**

#### **Conventional Banks: A Theoretical Study Between Systems and Operations**

Bank comes from the Italian word "Banco" which means a piece of board for a table-like book. And it was expanded again to show money exchange places, to show off money and was used by lenders and European exchange traders in the Middle Ages. According to G.M. Verryn Stuart, a bank is a body that aims to satisfy credit needs either with its own means of payment or with money obtained from other people or by distributing new means of exchange with a margin. In Law No. 14 of 1967 article 1 of a bank can be defined as a financial institution whose main business is to provide credit and services in payment traffic and money circulation. Similarly, in Law No.7 of 1992 Chapter 1 Pasa 1.1. That the bank is a business entity that collects funds from the community in the form of deposits and distributes them to the community in order to improve the standard of living.

#### **Conventional Bank Operational System**

The operational system used by conventional banks is to use a credit or loan interest calculation system (investment note), while what is meant by interest is as a reward for the services provided by the bank to customers for buying or selling its products, or in other words that interest is the price that must be paid to the customer because it has deposits and the price that must be paid by the customer to the bank because the customer is a borrower or debtor. Regarding the high and low interest rates in the community because they are influenced by various factors, namely: Public liquidity, Expectations, Inflation, the amount of domestic interest rates and expectations of changes in exchange rates and premiums on risk.

#### **Sharia Banks: A Theoretical Study Between Systems and Operations**

Islamic banks are banks that are operationally based on the concept of Islamic muamalah in accordance with the lines that have been determined in the Qur'an and As-Sunnah. The definition of a Sharia Bank is a bank that operates in accordance with Islamic sharia principles, in other words a bank whose operating system refers to the provisions that have been determined by the Qur'an and the hadith of the prophet. There are also those who interpret that Islamic banks are financial institutions whose main business is to provide credit and services in the payment and circulation of money whose operations are adjusted to the principles of Islamic law. In the Government Regulation of the Republic of Indonesia No. 72 of 1992 that a bank based on the concept of profit sharing based on sharia used by a bank in the first case, determines the rewards that will be given to the community. In connection with the use of community funds entrusted to him. Second, determine the rewards that will be given in connection with the provision of funds to the community in the form of financing both for investment and working capital purposes.

#### **Operational System of Sharia Banks**

Islamic banking has an institution that is somewhat different from conventional banking. In Islamic banking, banks are divided into Islamic commercial banks, Islamic business units, and Islamic BPRs. Outside the bank, there are the National Sharia Council, the Sharia Supervisory Board, the National Sharia Arbitration Board, Bank Indonesia and the Financial Services Authority. Based on the concept, the operations of Islamic banks consist of five systems, namely: (1) Pure deposit system (2) Profit sharing system in the distribution of Islamic bank funds. (3) Trading system and profit margin. (4) Rental system (al-ijarah) (5) Fee system (services). The explanation can be seen below:

The pure deposit system or al-wadiah is a facility provided by Islamic banks to provide opportunities for those who have excess and to store their funds in banks. This facility is not a destination for

infestation. In the language of al wadiah is a deposit, that is, a pure deposit from one party to another, both individuals and legal entities, which must be maintained and returned whenever the custodian wants. There are three types of Islamic bank deposits, namely: Mudharabah Savings, Mudharabah Deposits and Wadiah Current Accounts.

### **Comparison of Conventional Banking and Sharia Banking**

In this comparison, the similarities and differences that distinguish between sharia and conventional banking are discussed. Where banking in general is generally a business entity that collects funds from the community in the form of deposits and distributes them to the community in the form of credit and or other forms in order to improve the standard of living of many people. With the development of banking that has arisen in the wider community, there are many banks that can provide benefits for their customers in collecting funds from the community. The birth of sharia-based banks in Indonesia has added to the vibrancy of the legal community and emphasized the vision of banking life in Indonesia. How not, most of the Indonesian people are Muslims so that the presence of banks based on Islamic sharia is really like a welcome dipper. Especially because the conventional banking system relies on deposits or loans based on interest, which in the case of certain groups in Islam is still equated with money interest which is prohibited in Islamic law. So that alternative institutions in the form of interest-free flowers which are indeed based on certain sayriah laws are warmly welcomed by the community. Therefore, there are similarities and differences in legal aspects related to Islamic banking and conventional banking.

### **Similarities between Conventional Bank Systems and Sharia Banks in the Context of Achieving Profits in the Interest and Profit Sharing System**

The similarity between the interest system and the profit-sharing system, judging from their roles, is that both are systems used by banking institutions in distributing funds to the public. Creditors (Banks) and debtors (Customers) each benefit. The debtor (Customer) takes advantage of the facilities that have been provided by the Bank and pays it in installments. Meanwhile, creditors also benefit from a number of funds from the debtor based on the calculation of the interest system and the profit-sharing system. Thus, it is clear that interest and profit sharing are the main means of achieving profits, both banking institutions and other institutions. However, between the two systems there is a difference in perception of the possible benefits to be achieved.

### **Similarities between Conventional Bank Systems and Sharia Banks in the Context of Legal Basis**

The legal basis for establishment concerning Islamic and conventional banking is the same based on the Law that regulates general provisions that adjust to the ever-evolving situation and various efforts to overcome various problems and obstacles that can improve the performance of Indonesian banks, so article 1 of Law No. 7/1992 was amended and perfected by Law No. 10 of 1998. Not only in the provisions but also in the requirements. In article 9 paragraphs 1 and 2 of Law No. 21 of 2008, the same as Law No. 10 of 1998 paragraph 3 stipulates that conventional and sharia commercial banks can only be established by:

Indonesian citizens and/or legal entities

Indonesian citizens and/or legal entities with foreigners and/or foreign legal entities in partnership.

Likewise with the regulation of conventional people's credit banks and sharia credit banks. This provision is also regulated in article 3 (2) of Law No. 7 of 1992 jo. Law No. 10 of 1998, can only be established and owned by:

#### **Indonesian citizen**

#### **Indonesian Legal Entities wholly owned by Indonesian citizens**

#### **Local government**

Two or more parties between Indonesian citizens, Indonesian legal entities and local governments

### **Similarities in the Activities of Conventional Banking Business Entities and Banking Based on Sharia Principles in Banking Activities in Indonesia**

A bank is a business entity with a legal entity engaged in financial services. In Article 1 number (2) of the Banking Law, banks as business entities collect funds from the public in the form of deposits and distribute them to the community in the form of credit and/or other forms in order to improve the standard of living of many people. There are several similarities between Conventional Banks and Banks based on Sharia Principles which lie in one of their objectives, namely in seeking profits and community services in money traffic. Another similarity is in competition between banks. In the end, the best bank in providing services will win in the competition. Especially if you look at the banking conditions in Indonesia, that 80% of depository customers are contested by 15 thousand large banks, while 20% of the depository customer market is contested by more small banks. The above illustrates that the community prioritizes banking institutions that can provide comfort and convenience, so that the public feels the best and satisfactory service on the part of banking institutions.

According to Article 3 of the Banking Law, the main function of Indonesian banking is to collect funds to distribute public funds. In Article 4 of the Banking Law, Indonesian banks aim to support the implementation of national development in order to increase equity, economic growth, and national stability towards improving the welfare of the people. Banks based on sharia principles have the goal of increasing public participation in banking institutions because some people still have problems with the interest method. With the profit-sharing method, it is hoped that it can be used as an alternative to people who have problems or doubts about the interest method.

### **Differences in Activities of Conventional Banking Business Entities and Banking Based on Sharia Principles in Banking Activities in Indonesia.**

Khair, Gupta, and Shanmugam make a table of differences between the Islamic banking system and conventional banking as follows:

**Table 1. Differences between Sharia Banking System and Conventional Banking**

<b>It</b>	<b>Characteristic</b>	<b>Sharia Banking System</b>	<b>Conventional Banking System (interest-based)</b>
1	Business framework	Its functions and ways of operation are based on Sharia law. Banks must ensure that all activities comply with Sharia principles.	Its functions and ways of operation are based on secular principles and not based on hukm or religious provisions.
2	Prohibition of usury in financing	Financing is not interest-oriented and is based on the principle of buying and selling goods where the selling price includes a margin set at the beginning.	Interest-oriented financing and the interest is fixed or floating which is calculated based on the use of money.
3	Prohibition of usury in deposits	Deposits are not interest-oriented but profit-sharing, where capital owners are united based on a percentage of profits. The bank only recovers a portion of the profits from the UAHA it manages and in the event of a loss, the owner of the capital will not lose his money and will not benefit from the activities that have been financed throughout the life of the activity.	Interest-oriented deposits and the capital owner is guaranteed with interest that has been set at the beginning with a guaranteed return on principal capital.
4	Equity financing with risk sharing	Banks offer fairness in financing for a business. Losses will be borne jointly based on the principle of fairness, while profits are divided based on a previously agreed ratio.	Not can offer, but it has been available through the will of capital holding companies and financing banks.

5	Restriction	Sharia banks are prohibited from engaging in economic activities that do not meet Sharia provisions, for example, banks cannot finance businesses involving pigs, alcohol, and others.	There is no such restriction.
6	Zakat (religious tax)	In the modern Sharia banking system, one of its functions is to collect and distribute zakat.	Do not hold zakat.
7	Additional fees (penalties) due to payment suspension	There is no provision to charge additional fees for failure to meet obligations in accordance with the agreement or as a result of suspension of payment. Note: some Muslim countries allow the collection of penalties and the justification is that the cost incurred to collect the penalty is usually 1 percent of the amount of installments due.	It usually charges an additional fee if there is a payment hold.
8	Prohibition of gharar	Transactions with elements of <i>gharar</i> and speculation are strictly prohibited, for example derivative trading is prohibited because of its speculative nature.	Trading and transactions of all kinds Derivative/futures involving speculation are allowed.
9	Customer relationship	The bank's status in relation to customers is a partnership, like an investor and entrepreneurs.	The status of the relationship between the bank and the customer is the debtor and the creditor.
10	Sharia Supervisory Board	Every bank has a Sharia Supervisory Board to ensure that all business activities are in line with Sharia provisions.	There is no such provision.
11	Lawsuits	Bank must meet legal requirements in addition to Sharia demands.	Meet legal requirements only.

**Source: Khir, Gupta, Shanmugam, (2024)**

The very fundamental difference between the interest system and profit sharing is that in the interest system in conventional banks, the determination of interest is made at the time of the contract without being guided by mutual agreement (the bank determines) and whether the calculation of the interest system can make it difficult for customers to pay installments or not. Meanwhile, in the profit-sharing system, the risk of profit is determined based on a mutual agreement between the bank and the customer guided by the possibility of not burdening the customer in installments, not harming the bank. In the interest system, conventional bank lending rates and deposit interest rates will affect each other. So if the deposit interest rate is high, the loan interest rate will automatically be high. While in the profit-sharing system, this is not the case. In the interest system, the high and low interest is influenced by the profit target (profit) desired by the bank, so if the desired profit is large, the interest will also be large and vice versa, while in the profit-sharing system there is no such thing.

Islam prohibits interest and legalizes profit sharing. Both provide profits, but have fundamental differences as a result of the difference between investing and investing money. In business investments, there are risks, and therefore there is an element of uncertainty. On the other hand, interest on money is an activity that has no risk, because there is a certain percentage of interest rate that is set based on the size of the capital." In accordance with the definition above, saving money in an Islamic Bank is an investment category. The amount of change earned depends on the results of the business that actually occurs and is carried out by the bank as a fund manager. Thus, Islamic banks cannot just distribute money. Islamic banks must continuously strive to increase returns on



investment so that they are more attractive and give more trust to fund owners. The difference in interest and interest profit sharing can be seen in the following table:

**Table 2: Difference in interest and interest rate share**

Aspects	Flower	Profit Sharing
Profit determination	At the time of the agreement, assuming that it must always be profitable	At the time of the contract with the guideline of possible profit and loss
The amount of percentage	Based on the amount of money (capital) lent	Based on the amount of profit earned
Payment	As promised without consideration of profit or loss	Depends on the project's profits if losses are borne jointly
Payment Amount	Still not increasing even though profits increase	In line with the increase in the amount of income
Existence	Doubted by all religions	No one doubts its legitimacy

The difference between conventional banking and banking based on sharia principles can also be divided into two (2), namely the difference between conventional banking and banking based on sharia principles in general and in particular.

**The Difference Between Conventional Banking and Banking Based on Sharia Principles in General**

In some ways, conventional banks and Islamic banks have similarities, especially in terms of technical aspects of receiving money, transfer mechanisms, computer technology used, general requirements for obtaining financing such as ID cards, NPWP, proposals, financial statements, and so on. However, there are many fundamental differences between the two. The differences concern legal aspects, organizational structure, financed businesses, and work environment.

In general, the difference between conventional banks and Islamic banks can be seen in the table below:

**Table 3 Differences between Conventional Banks and Sharia Banks in General**

It	Conventional Banks	Sharia Bank
1.	Using the flower method	Based on profit margin
2.	<i>Profit oriented</i>	<i>Profit &amp; falah oriented</i>
3.	Relationship with customers in debtor-credit relationship	Partnership
4.	<i>Creator of money supply</i>	<i>Users of real funds</i>
5.	Not distinguishing between halal and haram investments	Invest only in halal business fields
6.	Does not have a Sharia Supervisory Board	Operations must be in accordance with the direction of the Sharia Supervisory Board

**Source : Processed Primary Data, Year 2024**

In general, there are several differences, including: Conventional banks (using the interest method, aiming for profit oriented, relationships with customers in the form of debtor-creditor relationships, creators of money supply, not distinguishing between halal and haram investments, not having a sharia supervisory board), while banks based on sharia principles (based on profit margins/with the profit-sharing method, profit/falah oriented, relationships with customers in partnerships, users of real funds, investment in halal fields, and operations must be in accordance with the direction of the Sharia Supervisory Board).

The difference between Sharia banks and conventional banks in banking practices can be seen more clearly when the implementation of a strict money policy. The term "tight money" is about Bank Indonesia's policy to control inflation or to control so that there is not much money circulating in the community. The differences in the implementation of the strict money policy can be seen as follows:

Conventional banks will raise the deposit interest rate followed by the interest rate on their loans. This increase can disrupt economic growth and at the same time interfere with the growth of employment opportunities.

In Islamic banks, the reduction of money in circulation will reduce the rate of inflation and reduce production costs in debtors' investments so that debtors will get additional profits that will be generated to depository customers to expand job opportunities will be maintained.

### **The Difference Between Conventional Banking and Banking Based on Sharia Principles Specifically**

The differences between conventional banks and Islamic banks in particular are in terms of legality, dispute resolution institutions, organizational structure, investment, organizational principles, objectives and relationships with customers.

**Table 4. Comparison between Sharia Banks and Conventional Banks specifically**

<b>Description</b>	<b>Sharia Bank</b>	<b>Conventional Banks</b>
Contract & Legality Aspect	Islamic law and positive law	Positive law
Dispute resolution bodies	The Indonesian Muamalat Arbitration Board (BAMUI), is now seeking to establish a replacement, namely the National Sharia Arbitration Board (BASYARNAS)	Indonesian National Arbitration Board (BANI)
Organizational Structure	There is a National Sharia Council and a Sharia Supervisory Board	There is no National Sharia Council and Sharia Supervisory Board
Investment	Halal	Halal and haram
Organizational Principles	Profit sharing, buying and selling, renting	Flower device
Purpose	Profit and falah oriented	Profit oriented
Customer relationship	Partnership	Debtor-creditor

**Source: Processed Primary Data, Year 2024**

In particular, that the comparison between conventional banks and banks based on sharia principles can be seen in the contract and legality aspects, namely, conventional banks only use positive law while banks based on sharia principles use Islamic law and positive law. In resolving problems, conventional banks are generally biased to use the General Court as a place to resolve problems or can non-litigation with Alternative Dispute Resolution (ADR), and then Bank Indonesia can act as a supervisory and supervisory body to provide sanctions in the form of administrative sanctions and so on. For banks based on sharia principles, the Indonesian Muamalat Arbitration Board (BAMUI) and now it is planned to establish a National Sharia Arbitration Board (BASYARNAS) which will replace the position of BAMUI so that it can work effectively as a place to solve banking problems based on sharia principles.

In addition to the similarities and differences that have been explained above, there are also advantages and disadvantages over conventional banks and banks based on sharia principles, namely:

#### **Conventional Banks**

Conventional banks have advantages, namely:

The interest method has long been known by the public, conventional banks are easier to attract depository customers so that it is easier to get capital.

The support of more established government regulations and policies for conventional banks, so that banks can move more certainly.

In addition to the advantages above, the phenomenon of the closure of conventional banks in recent years has opened up weaknesses in conventional banks. The factors that cause the failure of conventional banks' businesses are:

Management factors;

The occurrence of non-performing loans;

Fraudulent practices, such as bank-within-bank and fictitious transactions;

The practice of speculation that is too ambitious and without calculation.

### **Sharia Bank**

Islamic banks have several advantages, including the following:

The mechanism of Islamic banks is based on the principles of efficiency, fairness and togetherness

It is not easily affected by monetary turmoil.

Avoiding moneylaundering, with the good faith of depository customers who are not only looking for profits, Islamic banks are relatively safer from money laundering practices that are very detrimental to the State.

In addition to the advantages mentioned above, Islamic banks have several weaknesses that are found in practice, including the following:

Too prejudiced against all clients and assuming that everyone involved is honest and trustworthy, so it is prone to bad faith.

The profit-sharing method requires complicated calculations, especially in calculating the small share of customer profits and the value of deposits is not fixed. The risk of miscalculation is greater than in conventional banks.

Human resources who have expertise in Islamic banks are still few.

### **Differences in Sharia Bank Services Compared to Conventional Bank Services**

A bank based on Sharia Principles or Islamic banks or Islamic banks, like conventional banks, also functions as an intermediary institution, namely mobilizing funds from the community and distributing these funds back to the people who need them in the form of financing facilities. The only difference is that Islamic banks carry out their business activities not based on interest or interest-free, but based on the profit and loss sharing principle or PLS principle. Like conventional banks, in addition to providing services or financing facilities, Islamic banks also provide other services such as remittance services, opening a Letter of Credit, bank guarantees, and other services that are usually provided by conventional banks. Therefore, it is not surprising that Sayyid Tahir' stated that. Economic viability of Islamic banking/financing is not an issue for two reasons:

**(1) Islamic banking is just another way of banking.**

**(2) Islamic banking offers a better financial architecture, on economic grounds.**

In my opinion, the financing services that can be provided by Islamic banks are much more diverse than the financing services that can be provided by conventional banks. Regarding the financing services that can be provided by Islamic banks, not only financing in the form of what is referred to in conventional banking terms as credit, but also providing financing services that are usually provided by financing institutions (multifinance companies), such as leasing, hire purchase, purchase of goods by bank customers from the relevant Islamic bank with installments, purchase of goods by Islamic banks based on orders to manufacturing companies with upfront payments to finance the manufacture of these goods, equity participation (venture capital), and so on. Just like conventional banks that can provide syndicated loans, Islamic banks can also provide syndicated financing. A number of Islamic banking models have been developed by Muslim legal experts and economists. Some authors describe that an Islamic bank is an investment bank (a company that works in the field of securities), which only makes long-term risky investments, or is a commercial bank (commercial bank). Other authors describe Islamic banks as a universal bank, that is, banks that carry out not only commercial banking activities but also investment banking activities.

The financial techniques developed in Islamic banking, both in the context of the mobilization of funds from the bank and in the context of providing financing facilities by the bank to its customers, are financial techniques that are not based on interest (interest free) but are based on the profit and loss sharing principle (PLS). In the profit and loss sharing principle, banks and customers share not only profits but also losses.

From the services that can be provided by an Islamic bank as stated earlier, in my opinion, the services that can be provided by Islamic banks are not only in the form of services that can be provided by a conventional bank (conventional commercial bank) but also can provide services that are usually provided by a conventional multipurpose financing institution (conventional multifinance company). In other words, an Islamic bank can not only provide services of a conventional bank, but also can provide services that cannot be provided by a conventional bank because these services are usually provided by a non-bank financing institution. With regard to this description, I can without the slightest hesitation that the services offered and provided by an Islamic bank are services based on the concept of very modern and highly advanced financial transactions.

## CONCLUSION

Based on the discussion, it can be concluded that: 1). The operational nature of conventional and sharia banking in terms of philosophical, juridical and sociological aspects has not reflected the ideal values because Islamic banks in practice are still found to have irregularities, especially in matters related to sharia compliance. 2). The operational system used by conventional banks is to use a credit or loan interest calculation system (investment note), the high and low interest rates in the community because they are influenced by various factors, namely: Public liquidity, Expectations, Inflation, the amount of domestic interest rates and expectations of changes in exchange rates and premiums on risk, while Sharia banks are operationally based on the concept of Islamic muamalah which is in accordance with the lines that have been stipulated in the Qur'an and As-Sunnah, banks that operate in accordance with Islamic sharia principles, namely murabahah based on sharia principles. 3). The obstacles faced in the development of Sharia Banks in South Sulawesi can be overcome by the role of educational institutions which in this case do play a role as a human resource printer, the development of a network of Islamic bank offices is also needed in order to expand the range of services to the community. The large number of bank office networks will also increase business efficiency and increase competition towards improving the quality of public services and encouraging innovation of Islamic banking products and services., The role of the Government with regulations that do not contradict or overlap with the rules of the conventional economic system.

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