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The practice of determining margin of financing in sharia bank: A case study in Indonesia and Brunei Darussalam

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Abstract

This study is intended to explain the practice of determining margin of financing conducted by Islamic banking in Indonesia and Brunei Darussalam and to analyse whether such a practice is in compliance with Islamic law. The debtors of Islamic banking, especially Muslims, have to be cautious and understand the products offered by Islamic banking. This study applied qualitative method which is aimed to construct propositions and explain the meaning behind the social phenomenon taking place. The data analysis not only was conducted in linear means, but also used interactive analysis. In the policy of determining margin, sharia will take into account the country's economy condition, the risk management of financing, and the market share. In the process of determining the margin, sharia bank applies annuity method. Such a system still refers to the system of conventional banks, therefore it is evident that sharia banks cannot pull themselves apart from conventional bank system (in Indonesia) and the sharia banks in Brunei Darussalam have considered cost and margin in accordance with Islamic law. In Indonesian context, the acknowledgement of murabaha receivables is based on principal added by profit margin. Meanwhile, in Brunei Darussalam, only the principal is acknowledged by *ba'i-bithaman-ajil* (henceforth BBA) receivables. Indonesian Islamic banking is supposed to consider the circumstances of the customers, in compliance with *Nazilah Almaisyyarah*, taking into account a person's circumstances and it is belongs to the worship factor. In calculating margin, Islamic banking should calculate it daily by using flat rate.

Keywords: Determining Margin, Financing, Islamic Banking

1. INTRODUCTION

Islam is a revealed religion and it emphasizes the importance of a just system in the community. In other words, Islam is a religion that brings blessing and welfare to the universe including animals, plants and supernatural spirits, let alone to fellow human beings. The Koran is the holy book of Islamic religion that foregrounds justice. Justice constitutes equality for everyone and a just system contradicts the notion of accumulating as much wealth as possible, thus The Koran does not assert that the wealth only circles around the haves (The Koran, surah Al-Hasyr 59: 7). In order to obtain wealth, human with their desires would do anything to accomplish what they wish. Others' rights are occasionally neglected, and the gain is mostly derived from exploiting others. The real goal of Islamic communities is to free people from such an ordeal and it can only be achieved in a community where wealth is not earned by means of power but by hard work (A.A Engineer: 2006). According to the data provided by Bank Indonesia, there has been 11 Sharia Commercial Banks (BUS), 24 Sharia banks in

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the form of Sharia Business Unit (UUS), and 156 Islamic Rural Banks, with the increasing office network from 1.692 offices in the previous year to 2.574 offices in 2012. Therefore, the number of Islamic banking office channelling escalates as much as 25,31%. There are 31 sharia office channels and many conventional banks that plan to launch Sharia Business Units (UUS). The assets of Islamic banking have reached IDR 179 trillion (4,4% from the national banking assets), while Depositor Funds (DPK) is IDR 137 trillion (Islamic Banking Outlook: 2013). The growth of assets, Depositor Funds (DPK) and financing are relatively high, namely more than 37% growth of assets, 32% growth of Depositor Funds, and 40% growth of financing (Islamic Banking Outlook: 2013).

Such phenomena suggest the strategies applied by Islamic bank actors in running Islamic banks. Islamic banking requires contracts in financing consisting of mudharaba contract, murabaha contract, musharaka investment and so forth. The practice of determining the margin of financing in Islamic banks commonly uses sliding margin in which margin paid by the debtors is higher at the beginning after the contract and it constantly diminishes at the end of the period of repayment. For example: Let's say Mr. Anto applied for the financing of house ownership to Sharia Bank XXX in Pekanbaru with the amount of financing as much as IDR 100 million, in a period of 120 months and effective margin as much as 13%. After the officer of Sharia Bank XXX calculated the financing, the monthly instalment was determined as much as IDR 1,493,107,39. Based on such calculation, the margin was IDR 79,172,888,10. Therefore the total of Mr. Anto's debt was IDR 179,172,888,10. It means Sharia Bank XXX declared that the selling price of the house was IDR 179,172,888,10. The instalment of the first month as much as IDR 1,493,107,39 includes the principal as much as IDR 409.774,06 and the margin received by the bank is IDR 1,083,333,33. In the second month, the amount of the instalment remains the same, but the principal is IDR 414.213,28, and the margin received by the bank is IDR 1.078.894,11. And the last instalment, which is in month 120, the instalment remains the same, yet the principal is IDR 1.477.106,71, and the margin received by the bank is IDR 16.001,98.

Based on the example, there is an injustice in the high margin set initially and it diminishes at the end of instalment, therefore, when the debtor wishes to settle the payment at the beginning or in the middle of the payment period, it shows that the paid instalments are higher than the margin received by the bank than the principal debt instalments. The principle of justice means putting something in its rightful place and bestowing something to those who deserve it and treating something in accordance with its position (Yaya: 2009). The implementation of justice in trade is embodied in *muamalah* (social capital based business law) that forbids *riba* (interest), *maysir* (speculation), *gharar* (funds that are not transparent), *ihtikar* (hoarding goods in a particular time, with the purpose to resell them when their prices go up), *najsy* (the supply of goods which are not intended for buying motives, just to make the others parties willing to pay in high price), *risywah* (bribery), and the use of any haram (forbidden according to Islamic law) elements in goods, services, and in operational activities. Based on the above phenomena, it can be seen that the principle of justice is not embodied in determining margin and early settlement. Based on the example, when Mr. Anto settles the payment on month 60, the instalment is IDR 34.377.769,23 and the margin is IDR 55.208.674,17 and the remaining principal is IDR 65.622.230,77. Furthermore, in a website owned by sharia bank and conventional bank, detailed and complete information is not provided on the calculation disclosure of the financing of the margin in monthly instalments, resulting in injustice in information.

The Indonesian Ulama Council's (MUI) edict (*fatwa*) No. 84/DSN-MUI/XII/2012 on the method of the acknowledgement of the profit of murabaha financing in sharia financial institutions allows the annuity method in murabaha transaction. According to the chairman of National Sharia Council (DSN) of The Indonesian Ulama Council (MUI), KH. Mar'uf Amin, with the issue of the aforementioned edict, it means that sharia industry may use the annuity method and proportional in the acknowledgement of murabaha profit (Indonesia Accountant Magazine: February 2014). The data of this study was retrieved from Indonesia and Brunei Darussalam. Indonesia is a country with the highest number of Muslims and it has Islamic banks that rapidly develop and Brunei Darussalam is a country where the majority of its people hold Islam as their faith and it enforces Islamic law. In the beginning, Brunei Darussalam only had *Tabung Amanah Islam Brunei* (Brunei Islamic Trust Fund) founded in 1992. Brunei Islamic Trust Fund is the first financial institution that offers savings and financing in compliance with Islamic principles. In the mid-1980s, the national Bank of Brunei and the Island Development Bank (IDB) established a new bank in which the financial functions are more varied, which is The International Bank of Brunei. In 1993, The International Bank of Brunei was transformed into an Islamic bank, which is The Islamic Bank of Brunei (Ebrahim & Kai Joo: 2001). In 2000, Brunei Islamic Trust Fund and the Islamic Bank of Brunei joined force into The Islamic Development Bank of Brunei (<http://www.republika.co.id> retrieved on August 10 2014).

At the end of 2012, the managing director of The Islamic Bank of Brunei, Javed Ahmad, remarked that the market share of Islamic banking is estimated to increase into 60 percent from the current level of 40 to 55 percent. Such estimation is supported by the power of Brunei Darussalam that has strong economic and political stability, good infrastructure, and the government's support, and their capability to establish a good reputation as the centre of Islamic finance. On mid October 2012, Standard Chartered Bank Brunei (SCB) has plans to introduce Islamic banking product that year to meet the increasing demands of Islamic banking services in the sultanate. Such announcement is followed by the launch of The Islamic Bank of Brunei replacing The International Bank of Brunei as the only bank that operates domestically (<http://www.republika.co.id> retrieved on August 10 2014). All things considered, the researchers are interested to choose Indonesia and Brunei Darussalam as the object of the study.

In the previous study conducted by Selvia Ningsih et al. (2010), it is mentioned that the margin collection in SPM Islamic Rural Bank refers to the bank annual meeting by taking into account the competitor's margin and it is calculated by using flat rate method. Such a method is the same as that used by conventional banks, in spite of the difference in the contract since SPM Islamic Rural Bank informs the debtors of the revenue and the desired margin. In addition, a study conducted by Liza Fajarningtyas et al. (2010) claims that the return of the principal financing can be one faster by applying the concept of profit sharing. Based on the comparison between profit sharing and deposit interest, saving money in Islamic banks is more profitable because it is not influenced by the fluctuation of the interest rate. In line with the previous information presented, this study attempts to further scrutinize the practice of determining the financing of the margin performed by Islamic banking in Indonesia and Brunei Darussalam. The issue that is highlighted is the practice of determining the financing of the margin performed by Islamic banking system in Indonesia and Brunei Darussalam in which it is paid by the debtors.

Based on the background of the study, the following questions are posed: [1]. How is the practice of determining financing of the margin conducted by Islamic banking in Indonesia and Brunei Darussalam that will be paid by the debtors? [2]. Is the practice of determining financing of the margin conducted by Islamic banking in Indonesia and Brunei Darussalam in compliance with Islamic law?

2. LITERATURE REVIEW

Muhammad (2004: 113) defines sharia bank as a bank that operates without relying on interests or it is an institution that is run based on Islamic law principles. Based on the definition, it can be concluded that sharia bank is an institution that serves as an intermediary between the bank and customers that offers loans and financing both cash and credit in order to improve the welfare of the people which is based on Islamic law principles. According to Kasmir (2008: 189-200), similar to conventional banks, sharia banks also offer the customers a wide variety of banking products.

The products are elaborated as follows: [a]. ***Al-Wadiah*** (savings) is a deposit or keeping money in sharia bank. The principle of *al-wadiah* is basically keeping money from one party to another, whether individually or institutions, in which the money must be kept and returned anytime the owner desires to get it back. [b]. **Financing by applying profit sharing.** The role of Islamic banking in Indonesia economic activities is not much different from the conventional banking. The fundamental difference between the two lies in the principles of financial/operational transactions. One of the principles in Islamic banking operations is the implementation of profit and loss sharing. Such a principle does not prevail in conventional banking that applies interest system or the use of the function of time value of money, which means the value of money at present time is different from that of the future. The difference between the principle of sharia bank and conventional bank lies in the financing pattern and the provision of the compensation of the services which are received by both the bank and the investor. In conventional banks, financing is termed as a loan, while in sharia banks, it is still financing (Nasution: 2003). In other words, in conventional banks, financing is based on transactional cooperation (profit-loss), yet sharia banks is based on partnership cooperation.

The compensation of services provided or received by conventional banks is in the form of interest loan or deposit in definite percentage. Meanwhile, sharia banks which apply Islamic system, only offer and receive the compensation of services based on profit sharing contract. Such a principle in sharia banks is conducted in four main contracts as follows: [1]. *Al-Musyarakah* is a cooperation contract between two parties or more to perform a particular business. [2]. *Al-mudharabah* constitutes a cooperation contract between two parties where the first party provides the capital and the other party manages the capital. In its practice, *mudharabah* is divided into two types. The first type is *mudharabah muthlaqah* which is a cooperation between the first party and the other party with a wider scope in which it has no time limit, business specifications, and particular area of business.

The second type, *mudharabah muqayyadah*, is the opposite of the former, in which the other party is limited in time, business specification and the area of business. [3]. *Al-Muzara'ah* is a cooperation in farming management between the land owner and the farmers. The land owner provides the land to the farmers to yield agricultural produce in return of a particular share of the crops. [4]. *Al-Musaqah*, which is part of *al-muzara'ah*, is the farmers only responsible for watering and maintenance by using their own funds and equipment. The return is still taken from the percentage of the crops. [c]. *Bai al-Murabahah* is the activity of purchase and sale with the original cost of goods added by agreed profit. In this case, the seller has to inform the original cost of goods and the profit added. [d]. *Bai as-Salam* is a contract in which advance cash payment is made for goods to be delivered later on. The principle of this product is that the type, quality, and quantity of the goods have to be informed in advanced and the payment must be in the form of money. [e]. *Bai al-istishna'* is a special form of *Bai as-Salam*. It is a contractual agreement between a buyer and a manufacturer. [f]. *Al-ijarah (Leasing)* is an exchange transaction in which a known benefit arising from a specified asset is made available in return for a payment, but where ownership of the asset itself is not transferred. [g]. *Al-Wakalah* is a contract where a person authorizes another to do a certain well-defined legal action on his behalf. [h]. *Al-Kafalah (assurance)* is a contract where the guarantor commits to assure the debtor in order to fulfil debtor's obligations to creditor. It can also referred to handing over the liability from one party to another. [i]. *Al-Hawalah* is to transfer a debt from one debtor to another who is accountable. In other words, it is to transfer a debt from one party (debtor) to another with the same price. [j]. *Ar-Rahn* is possessions offered as security for a debt so that the debt will be taken from it in case the debtor failed to pay back the due money. It works just as mortgage or collateral.

Sharia transactions uphold the values of democracy and togetherness in sharing economy, thus one cannot gain profit over the loss of others. Sharia transactions are based on the following principles: [1]. The principle of brotherhood (*ukhuwah*), means that the transaction held is in the form of social interaction and the harmonization of interests among related parties by considering mutual benefit. This principle is based on the principles of knowing each other (*ta'aruf*), understanding each other (*tafahum*), helping each other (*tafakul*), mutual synergy, and mutual alliance (*tahaluf*). [2]. The principle of justice (*'adalah*), means putting things in the right place and giving something to those who have the rights and treating something in accordance to its position. The implementation of justice in business is in line with the principle of Islamic law that forbids interest, *maysir* (speculation), *gharar* (funds that are not transparent), *ihthikar* (hoarding goods in a particular time, with the purpose to resell them when their prices go up), *najsy* (the supply of goods which are not intended for buying motives, just to make the others parties willing to pay in high price), *risywah* (bribery), and the use of any haram (forbidden according to Islamic law) elements in goods, services, and in operational activities. [3]. The principle of public interest (*maslahah*), means that sharia transactions have to be in the form of goodness and benefit with worldly and afterlife dimensions, material, and spiritual, and *thayyib* (useful and brings goodness). This principle must have two elements: adhering to Islamic law (*halal*) and *thayyib* (useful and brings goodness). [4]. The principle of balance (*tawazun*), means that transactions have to consider the balance of the aspects of material and spiritual, private and public, monetary and riil sectors, business and social, and the balance of utilization and preservation. [5]. The principle of universalism (*syumuliyah*), means that sharia transactions can be done by, with, and for all stakeholders regardless of their ethnicity, religion, and status in accordance with the spirit of *rahmatan lil'alammin*/blessings for the whole world (KDPPLKAS in Rizal Yaya et al.: 2009).

According to Karim (2004), the method of determining the margin of financing in sharia banks consist of four methods as follows: [1]. Sliding margin is a method of calculating margin that decreases over time as the price of the original cost also decreases as a result of the decline of the instalments or principal instalments and the amount of instalments (the original cost and margin) paid by the customer each month. [2]. Average margin level is a descending margin in which the margin is fixed and the amount of instalments (the original cost and margin) is paid by the customer every month. [3]. Flat margin is the calculation of margin towards the value of the original price, which is fixed, even though the debit balance decreases as a result of the instalments of the original cost. [4]. Annuity margin is the margin that is derived from annual calculation. It is a way to return financing by paying fixed instalments and profit margin.

3. RESEARCH METHOD

3.1 Approach and Type of Research

This study applies qualitative research method, which is a study that intends to construct a propositions and explain the meaning behind the social reality that emerges. This study is also conducted to elaborate what

actually happens in sharia banks and present the findings to scrutinize the phenomenon in its natural settings (Bungin, 2007).

3.2 The Focus and the Site of the Study

This study focuses on the following aspects: [1]. The practice of determining the margin of financing, that is paid by the debtors, conducted by Islamic banking in Indonesia and Brunei Darussalam. [2]. It also focuses on whether the practice of determining the margin of financing performed by Islamic banking in Indonesia and Brunei Darussalam is in compliance with Islamic law. This study was conducted to sharia banks in Indonesia and Brunei Darussalam.

3.3 Data Collection Process and Technique

In this study, the researchers were actively involved in collecting the data. In line with qualitative research characteristics, the researchers act both as the instrument and data collector. This research observes the practice of determining the margin of financing, which is paid by the debtors, conducted by Islamic banking in Indonesia and Brunei Darussalam. This study applies full observation, therefore, the identity of the researchers has to be clear and fully recognized by the participants. The data was collected using observation, in-depth interview, and documentation. Observation is a data collection technique which is conducted by carefully watching the emerging phenomena in a research site. By means of this technique, a more complete and thorough picture of the observed object can be obtained. In-depth interview is a data collection technique in which it is performed by directly and thoroughly asking questions on the object of the study to elicit data and responses relevant to the topic of the study. The questions are listed in the interview guide and such questions can be further developed in line with the need and the depth of data which is desired. Documentation is a data collection technique which is conducted by reviewing documents, archives, and references relevant to the theme of the study such as margin calculation files, and other relevant data.

3.4 The Type of and the Source of Data

The primary data is the data directly obtained from the existing customers of Islamic banking. The data contain the determination of the margin of financing, which is paid by the debtors, practised by Islamic banking institutions in Indonesia and Brunei Darussalam.

3.5 Population and Sample

The population of this study covers Sharia Commercial Banks (BUS) in Indonesia and Brunei Darussalam. The sampling technique applied was purposive sampling, in which a particular group of people share the same with those of the population (Bachtiar, 2000). The researchers chose key informants because they were believed to provide reliable data and they could offer in-depth insights on key problems (Sutopo, 1988).

3.6 Data Validity and Analysis

In this research, the validity of the data is checked by triangulation method. Triangulation is a validity assessment method that applies other sources of data to confirm or as a comparison to the primary data (Moleong: 2004). Patton (as cited in Moleong, 2004) identified four types of triangulation: [1]. Triangulation of sources is comparing and checking the consistency of different data sources from within the same method. The data can be obtained by carrying multiple interviews in a particular term. [2]. Methods triangulation is a method that applies two strategies namely: (1) checking the consistency of research findings by applying multiple data collection techniques; (2) checking the consistency of multiple data sources with the same method. [3]. Analyst triangulation is a method that involves other researchers to check the degree of reliability. [4]. Theory triangulation is a method of using multiple theoretical perspectives to analyse and interpret the data. The type of triangulation applied in this study is triangulation of sources. Such is the case since the data collection techniques are an interview, documentation, and observations of people involved in sharia banking and the customers. The procedures constitute: comparing observation data and the findings of the interview, and comparing the findings of the interview and different documents. In a qualitative study, data analysis cannot only be conducted in linear manner, but it can also apply interactive analysis (Sudika, 2001). The interactive analysis method is also called cyclical interactive analysis model. The components of the analysis are data reduction, data presentation, and drawing conclusions.

4. DISCUSSION

The object of this study is sharia banks in Indonesia and Brunei Darussalam. Ten sharia banks from Indonesia were Mandiri Sharia Bank, Muallamat Bank, Riau Syariah bank, BRI Syariah, BTN Sharia, BNI Sharia, BTPN Sharia, Permata Sharia Bank, Danamon Bank Sharia, and Mega Bank Sharia. Meanwhile, there were only two banks from Brunei Darussalam, namely Brunei Darussalam Islamic Bank (BIBD) and *Tabung Amanah Islam Brunei* (Brunei Islamic Trust Fund). In this study, the researchers attempted to retrieve information from several informants from each sharia bank both in Indonesia and Brunei Darussalam by collecting a summary of interview carried out with informant A from a sharia bank in Indonesia and Informant B for a sharia bank in Brunei Darussalam. Based on the interviewed informants, information on the method used in financing in sharia banks. The summary of the interview result from **informant A** is as follows: *The method used in financing is annuity. This system still refers to that of the conventional banks, therefore it can be seen that sharia banks cannot detach themselves from the system applied by conventional banks. In terms of murabaha financing, the receivables consist of the principal and the margin. This murabaha also applies annuity method in determining profit.*

Meanwhile, informant B offered information from sharia banks in Brunei Darussalam. **Informant B** remarked the following summary information: *The financing method in sharia banks in Brunei Darussalam also applies annuity method, and then the profit is calculated daily along the period of deferred payment.* Based on the information from both informants, it can be seen that sharia banks in Indonesia determined the margin of financing due to the consideration of the time value of money. However, sharia banks in Brunei do not consider the time value of money but they consider the agreement of both sides in which money is no longer a commodity. Some opinions that are in line with the concept of the time value of money and that justify interests and loans do not comply Islamic financial law. Nevertheless, as previously mentioned, the interest cost is only one of the opportunity costs that apparently justify the time value of money in conventional analysis.

Islam encourages people to pay others' debts as soon as possible, especially the opportunity cost that is faced by the lender. Therefore, a lot of Islamic scholars believe that the time value of money is a concept that prevails in both economy and Islamic finance. Islam acknowledges the existence of the time value of money in economic activities or financial transactions which under a contract. Such an acknowledgement can be proven based on the verses in The Quran, hadith, and the statement of the scholars relating to whether *mubaraha* contract is allowed or not. In *muharaba* contract, the seller determines a higher price in deterrence compared to cash. The reason behind the determination of the higher price in muharaba contract according to the scholars is the deterrence factor (*al-'ajal*). Such a reason shows that the scholars take into account the influence of time dimension *al-'ajal* (deterrence) towards the price of goods (Muhammad, 2002).

The implementation of the concept of the time value of money has to be free from *riba* (interest), yet the time value of money is not considered as *riba* if during the period a reward of money is given collectively or indirectly as in deterrent sale and purchase and *murabaha* contract. In this kind of trade, the time dimension *al-'ajal* (deterrence) offers a collective reward of money with the price of the goods sold in deterrent. The price of the goods causes the time dimension *al-'ajal* (deterrence) not to offer a reward of money individually or the reward is given indirectly. This situation is free from any *riba* elements, yet it still not considered as wealth (*al-mal*) because time does not meet *al-'ainiyah* criteria that have to exist to anything considered as wealth (*al-mal*). On the contrary, time only has value of wealth (*qimah al-mal*) which is also called *maliyah al-zaman*, therefore it deserves to be given a reward in the form of wealth (*al-'iwad al-mal*). Both the concept and the implementation of the time value of money in Islam are different from those of conventional banks, even though both type of banks produce an addition to the price of the goods under contract. The resulting addition (*ziyadah*) through the use of the concept of the time value of money in Islam is not considered as the forbidden *riba*. However, the addition gained from the implementation of the time value of money in the conventional system is considered as true *riba*. The concept of the time value of money has different characteristics in its use between Islam and the conventional system. The most discrete difference is that in Islam, money is not a commodity, and the time value of money in the conventional system allows *riba*, which is forbidden in Islam.

From the informant, information on the method of sliding margin (the initial margin is higher than that of the end) in financing in sharia bank. The following is the summary of the interview with **Informant A**: *Sharia banks do such a thing because the consideration of the time value of money, and sharia banks are also aware that sharia principles prohibit the time value of money to be applied in sharia banks. Sharia bank also considers the risk management of the financing that will be channelled.* Informant B also offers the information on the method of sliding margin of financing in sharia banks in Brunei Darussalam. The summary of the interview

from **Informant B** is as follows: *In sharia banks in Brunei, time value of money is no longer taken into account, only an agreement between two parties in which money does not serve as a commodity.*

Based on the information obtained from the two informants, it can be seen that sharia banks in Indonesia has not fully uphold true justice, since Islamic banking is run by system and the system is the same with conventional banks. Meanwhile, sharia banks in Brunei Darussalam have already applied the principle of justice in financing. Sharia transactions uphold the values of democracy and togetherness in achieving benefits (sharing economics) in which a person cannot gain profit over someone else's loss. Sharia transactions are based on the principles of brotherhood (*ukhuwah*), justice ('*adalah*), public interest (*masalahah*), balance (*tawazun*), and universalism (*syumuliyah*). The principle of justice ('*adalah*) means putting things in the right place and giving something to those who have the rights and treating something in accordance to its position. The implementation of justice in business is in line with the principle of Islamic law that prohibits interest, *maysir* (speculation), *gharar* (funds that are not transparent), *ihtikar* (hoarding goods in a particular time, with the purpose to resell them when their prices go up), *najsy* (the supply of goods which are not intended for buying motives, just to make the others parties willing to pay in high price), *risywah* (bribery), and the use of any haram (forbidden according to Islamic law) elements in goods, services, and in operational activities. In terms of the principle of justice in financing in sharia banks, both informants provide how it is applied. The summary of the interview of **Informant A** is as follows: The view of sharia banks states that the financing we apply contains injustice but it is already by system and it is the same as conventional banks. If we do not follow the same system as conventional banks, we will lose the competition. Informant B also provides the information on financing. The interview summary from **informant B** is as follows: *Based on the practice carried out by Islamic banking in Brunei, we assumed that we have apply the principle of justice. It can be seen from the determination of daily profit.*

Based on the information obtained from the two informants, it can be seen that financing in sharia banks in Indonesia goes against the principle of Islamic banking. But since they hold fear of losing the competition to conventional banks, they eventually practice the same thing. Different from Indonesia, sharia banks in Brunei assume that they have practised sharia principles based on the principles of brotherhood (*ukhuwah*), justice ('*adalah*), public interest (*masalahah*), balance (*tawazun*), and universalism (*syumuliyah*). The principle of *masalahah* in sharia transactions means that sharia transactions have to be in the form of goodness and benefit with worldly and afterlife dimensions, material, and spiritual, and *thayyib* (useful and brings goodness). This principle must have two elements: adhering to Islamic law (*halal*) and *thayyib* (useful and brings goodness). The principle of *tawazun* means that transactions have to consider the balance of the aspects of material and spiritual, private and public, monetary and riil sectors, business and social, and the balance of utilization and preservation.

In terms of financing in sharia banks, the two informants also offer insights on whether the financing complies sharia principles. The summary interview from **informant A** is as follows: *In relation to sharia principles, sharia banks are aware that their system of financing does not adhere to the principles. Nevertheless, they still practise what conventional banks do out of the fear of losing the competition. They also believe that once the clause of the contract is signed by the customer, it means the customer already knows and agrees to the content of the clause of the contract.* Furthermore, *informant B* also offers insights on financing in their banks. The summary interview of **informant B** is presented in the following statement: *Based on the practice conducted in Brunei, we assume that we have carried out financing in adherence to sharia principles. It can be seen from the determination of daily profit.*

Pertaining the insights from the informants on financing in sharia banks in Indonesia, it goes against the principle of Islamic banking. But since they are afraid of losing the competition to conventional banks, they eventually practice the same thing. Different from Indonesia, sharia banks in Brunei assume that they have practised sharia principles based on the principles of brotherhood (*ukhuwah*), justice ('*adalah*), public interest (*masalahah*), balance (*tawazun*), and universalism (*syumuliyah*). The principle of *masalahah* in sharia transactions means that sharia transactions have to be in the form of goodness and benefit with worldly and afterlife dimensions, material, and spiritual, and *thayyib* (useful and brings goodness). This principle must have two elements: adhering to Islamic law (*halal*) and *thayyib* (useful and brings goodness). The principle of *tawazun* means that transactions have to consider the balance of the aspects of material and spiritual, private and public, monetary and riil sectors, business and social, and the balance of utilization and preservation.

In regard to the details of the initial margin and the final margin in sharia banks, both informants also offer some insights. The interview summary of **informant A** is as follows: *Sharia banks do not intend to not offer transparency, nevertheless, they assume that information they provide will be shared to those who have no interest.* Informant B also discloses insights on the initial margin and the final margin in their banks. The

interview summary of **informant B** is as follows: *Sharia banks share all information to the customers and nothing is kept hidden, however, some customers do not feel the need for the explanation and they directly approve the margin.* Based on the insights from the two informants, the sharia principle requires sharia banks to disclose the details of margin from the beginning until the end to the customers. However, sharia banks in Indonesia think that they do not intend to not offer transparency, nevertheless, they assume that information they provide will be shared to those who have no interest. Meanwhile, sharia banks in Brunei reveals all information to the customer, yet some customers find it unnecessary and directly approve the margin.

In relation to the explanation on the initial margin than the final margin to the customers, the two informants also provide some insights on it. The interview summary of **informant A** is as follows: *Sharia banks do not explain it because they assume that when the customers have signed the clause of the contract, it means they have known everything about the content of the clause of the contract.* Informant also offers some insights on the explanation of the initial and final margin. The interview summary of **informant B** is as follows: *The customers are provided with the information on the clause of the contract and the agreed margin.* Based on these insights on the explanation that the initial margin is higher than the final margin, the sharia banks from the two countries have different view. Sharia banks in Indonesia assume that the bank do not offer such explanation since they think that once the customers have signed the clause of the contract ut means that they have known everything written in the clause of the contract. Different from them, sharia banks in Brunei provide the customers with the content of the clause of the contract and the agreed margin. Sharia transactions made it clear that everything has to be informed to the customers without withholding anything.

Furthermore, the two informants also share the information on the adherence of the determination of the margin or profit of financing to the principles of sharia transactions. The interview summary from **informant A** is presented as follows: *Sharia banks are concerned that such information will be taken advantage by people with no interest. They are also aware that such an action does not adhere to the principle of sharia transactions that requires transparency.* Informant B also offers some insights on the adherence. The interview summary from informant A is presented as follows: *The customers are provided with the information on the clause of the contract and the agreed margin.* Determining the margin or profit of financing has to comply sharia principles. The principles of sharia transactions must be based on the principles of brotherhood (*ukhuwah*), justice (*adalah*), public interest (*maslahah*), balance (*tawazun*), and universalism (*syumuliyah*).

In terms of the adherence of early settlement and the use of sliding margin in determining margin or profit (when using sliding margin, in the middle of instalments, the balance of the debt is still high, the margin balance is low) to sharia principles, the two informants offer different insights. The interview summary from **informant A** is presented in the following excerpt: *When the debt is settled early, the bank will allow it with the policy that the paid debt principal has gone over 50% of the initial debt principal and the customer has to pay the monthly margin and also the penalty twice as much as the margin of the particular month. When the debt is going to be settled half, it can be done with the requirement that the paid debt principal is over 50% and the debt principal which is half settled has to be half of the remaining principal.* Informant B also provides some insights on the adherence of early settlement and the use of sliding margin in determining margin or profit to sharia principles. The interview summary of **informant B** is presented in the following excerpt: *In Islamic banking in Brunei, since we have applied profit calculation that upholds the principle of justice and the profit is calculated daily by using a particular system, there is no issues concerning early settlement. When the deterred payment of a particular month is paid faster from the due date, then the profit from the date of payment to the due date is not calculated.*

The acknowledgement of *murabaha* receivables that is recognized by sharia banks does not adhere to the principle of accounting: the total of *murabaha* receivables will be acknowledge by an amount of principal added by the total accrued total of margin. It totally goes against the principle of accounting because the receivables are higher and the value of the company will increase due to the acknowledgement of receivables that is too high. Meanwhile, the initial margin or profit acknowledged by sharia banks is not necessarily received by sharia banks during the period of settlement. Indonesian banking should consider the circumstances of the customers in line with "*Nazilah Almaisarah*" (looking into one's condition and it constitutes the factor of worship).

5. CONCLUSIONS AND SUGGESTIONS

In the policy of determining margin, sharia banks will take into account the state of the country's economy, the risk management of financing, and market share. In the process of determining margin, sharia banks use annuity method. This system still refers to that of the conventional banks, as a result sharia banks in Indonesia cannot avoid the system of conventional banking. However, sharia banks in Brunei have calculated cost and margin in

compliance with sharia principles. In its practice in Indonesia, the acknowledgement of *murabaha* receivables is based on the principal added by profit margin. On the other hand, sharia banks in Brunei, the acknowledgement of *murabaha* receivables is only based on the principal. Indonesian banking is supposed to consider the circumstances of the customers in line with “*Nazilah Almaisyarah*” (looking into one’s condition and it constitutes the factor of worship). In determining margin, sharia banks should daily calculate it by using flat method. In one hand, Indonesian sharia banking wishes to have win-win solution and to apply the principle of justice. On the other hand, in reality, the margin is already set by the main bank. Sharia banks should not take into account the time value of money rather than risk management. Until today, sharia banks only focus upon the financing of *murabaha* alone. They should start financing investments in the form of *mudaraba* contract and *musyaraka* contract.

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