

# Problematics of Developing Islamic Banks and Islamic Financial Institutions



Rahmat Ilyas, Ifelda Nengsih, Heny Hidayati, Mardhiyaturrositaningsih,  
Ita Nurcholifah, Agusdiwana Suarni, Husain

**Editors:** Dr. H. Angga Syahputra, S.E.I., M.E.I. & Bahrul Ulum Rusydi, SE., M.Sc.

**PROBLEMATICS OF DEVELOPING  
ISLAMIC BANKS AND  
ISLAMIC FINANCIAL INSTITUTIONS**

## **Law of the Republic of Indonesia Number 28 of 2014 concerning Copyright**

### **Scope of Copyright Article 1**

Copyright is the exclusive right of the creator that arises automatically based on the declarative principle after a creation is realized in real form without reducing restrictions in accordance with the provisions of the legislation.

### **Penalty provisions Article 113**

- (1) Any person who without the right to infringe the economic rights as referred to in Article 9 paragraph (1) letter i for commercial use shall be punished with imprisonment of 1 (one) year and/or a maximum fine of Rp.100,000,000 (one hundred million rupiah).
- (2) Any person who without the right and/or without the authorization of the creator or copyright holder infringes the economic rights of the creator as referred to in Article 9 paragraph (1) letter c, letter d, letter f, and/or letter h for commercial use shall be punished with imprisonment of 3 (three) years and/or a maximum fine of Rp.500,000,000.00 (five hundred million rupiah).
- (3) Any person who without the right and/or without the authorization of the creator or copyright holder infringes the economic rights of the creator as referred to in Article 9 paragraph (1) letter a, letter b, letter e, and/or letter g for commercial use shall be punished with imprisonment of 4 (four) years and/or a maximum fine of Rp.1,000,000,000.00 (one billion rupiah).
- (4) Any person who fulfills the elements as referred to in paragraph (3) in the form of piracy shall be punished with imprisonment of 10 (ten) years and/or a maximum fine of Rp.4,000,000,000.00 (four billion rupiah).

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## PREFACE

*Hamdan wa syukran Lillah, sholatan wa salaman 'ala Rasulillah.*

All praise is due to Allah Swt. for His endless blessings and guidance, which have made it possible for this book, *“Problematics of Developing Islamic Banks and Islamic Financial Institutions,”* to be published and presented to readers. Peace and blessings be upon the Prophet Muhammad Saw., who conveyed the teachings of Islam as a comprehensive way of life, including guidance in economic and financial affairs.

This book emerges from both academic concern and critical reflection on the development of Islamic banking and financial institutions, which, despite their significant growth, continue to face multifaceted challenges. While Islamic finance is widely regarded as a more ethical and equitable alternative to conventional systems, its practical implementation often reveals structural, regulatory, and operational complexities that cannot be overlooked.

The chapters compiled in this volume, written by scholars from various universities across Indonesia, explore a wide range of pressing issues. Beginning with the foundational principles of Islamic banking and finance and

extending to contemporary challenges, this book provides a comprehensive discourse on the realities faced by the industry today. Discussions on Shariah governance and institutional compliance highlight the importance of maintaining integrity and adherence to Islamic principles, while the dilemmas surrounding product innovation reveal the tension between market demands and shariah constraints.

Furthermore, the book addresses critical concerns related to liquidity management and risk mitigation, which remain central to the stability of Islamic banks. The increasing competition between Islamic and conventional banking institutions is also examined, reflecting the need for strategic positioning and differentiation. In addition, issues of public awareness, financial literacy, and trust are carefully analyzed, recognizing their pivotal role in shaping the growth and sustainability of Islamic financial systems.

One of the most significant contributions of this book lies in its exploration of the ethical tension between the objectives of *maqashid al-shariah* and profit-oriented practices. This discussion serves as a reminder that Islamic financial institutions must not only pursue profitability but also uphold the broader social and moral objectives of Shariah.

As a publisher, we believe that this book will serve as a valuable reference for academics, practitioners, policymakers, and students who are concerned with the advancement of Islamic finance. It is our hope that this work will contribute to a deeper understanding of the challenges faced by Islamic financial institutions and inspire constructive solutions for their future development.

We would like to express our sincere appreciation to all contributors who have dedicated their knowledge and efforts to this publication. May this book provide meaningful insights and become a catalyst for the continuous improvement of Islamic banking and finance.

Deli Serdang, May 6<sup>th</sup> 2026  
18<sup>th</sup> Dzulqaedah 1447 H

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## EDITOR'S PREFACE

*Alhamdulillah 'ala kulli haal,*

The global development of Islamic banking and financial institutions has demonstrated remarkable progress over the past decades. Positioned as an ethical and value-based alternative to conventional finance, Islamic finance aspires to promote justice, transparency, and socio-economic balance. Nevertheless, the transition from its normative ideals to real-world implementation remains a complex and often challenging process. This volume, *"Problematics of Developing Islamic Banks and Islamic Financial Institutions"*, seeks to critically explore that gap.

Rather than offering a celebratory narrative, this book presents a collection of analytical perspectives that examine the underlying challenges shaping the industry today. The contributors engage with both foundational and contemporary issues, ranging from the philosophical principles of Islamic finance to the practical concerns of governance, compliance, and institutional performance. This approach allows readers to gain a more nuanced understanding of the structural and operational realities faced by Islamic financial institutions.

A key theme throughout this volume is the tension between idealism and pragmatism. Islamic financial institutions are expected to uphold shariah principles, including fairness, risk-sharing, and ethical conduct. However, they operate within a global financial system largely dominated by conventional frameworks. This condition often results in dilemmas, particularly in product development, where the distinction between genuine innovation and the replication of conventional financial instruments becomes increasingly blurred.

Equally important—though often underestimated—are issues related to liquidity management and risk mitigation. These challenges are not only technical in nature but also reflect deeper conceptual questions about the design and resilience of Islamic financial systems. The ability of Islamic banks to compete effectively with their conventional counterparts depends significantly on how well they address these constraints while maintaining their distinctive identity.

In addition, this book highlights the critical role of public awareness, financial literacy, and trust in the growth of Islamic finance. The sustainability of the industry is closely linked to the level of understanding and confidence among stakeholders, particularly the wider community. Without sufficient awareness and trust, the expansion of Islamic financial institutions will face significant limitations.

One of the most important discussions presented in this volume concerns the relationship between profitability and the objectives of maqashid al-shariah. Islamic financial institutions are not solely expected to generate financial returns, but also to contribute to broader social and ethical goals. This raises an essential question: to what extent have current practices aligned with the true spirit of shariah?

Addressing this question is crucial for ensuring the long-term credibility and relevance of the industry.

As the editor, We regard this book as part of an ongoing intellectual discourse rather than a final conclusion. It invites readers to engage critically with the issues presented, to challenge existing assumptions, and to explore more authentic pathways for the development of Islamic finance. The diversity of perspectives included in this volume reflects the complexity of the subject and underscores the importance of continued research and dialogue.

We would like to express my sincere appreciation to all contributors for their valuable insights and scholarly dedication. It is my hope that this book will serve as a meaningful reference for academics, practitioners, and policymakers, and that it will inspire further advancements in the field of Islamic banking and financial institutions.

Deli Serdang, May 3<sup>rd</sup> 2026

**Dr. H. Angga Syahputra, S.E.I., M.E.I.**

**Bahrul Ulum Rusydi, SE., M.Sc.**

Editorial Team





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# Problematics of Developing Islamic Banks and Islamic Financial Institutions

This book, *“Problematics of Developing Islamic Banks and Islamic Financial Institutions,”* offers a critical and comprehensive exploration of the challenges faced by the Islamic finance industry in the contemporary era. It brings together scholarly contributions that examine key issues ranging from the foundational principles of Islamic banking to the complexities of Shariah governance, institutional compliance, and product innovation. The book highlights how Islamic financial institutions continue to navigate structural constraints, competitive pressures, and regulatory demands while striving to remain aligned with Shariah principles.

Furthermore, the book delves into crucial themes such as liquidity management, risk mitigation, market competition, and the role of public awareness, financial literacy, and trust in shaping industry growth. A central focus is placed on the ethical tension between profit-oriented practices and the objectives of maqashid al-shariah, raising important questions about the authenticity and direction of Islamic finance. By offering analytical insights and critical perspectives, this book serves as a valuable reference for academics, practitioners, and policymakers seeking to understand and advance the development of Islamic banking and financial institutions.



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