



The Comparative Analysis of Islamic and Conventional Monetary Financial System

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Abstract:

This article aims to analyze the uniqueness of Islamic financial instruments compared to conventional financial instruments and to find out what distinguishes the Islamic monetary framework from the standard monetary framework. The advantages and disadvantages of Islamic and traditional monetary frameworks are also discussed in this paper. This paper uses a writing concentrate approach by collecting information from the analytical writing in question. The side effects of the review suggest that the Islamic Monetary Framework is developing rapidly, playing its part in allocating assets and working on the turn of financial events, and implementing Islamic banking. The results also show that the advantages of Islamic finance can survive despite different monetary emergencies. The progress of Indonesian Islamic Banking evidences it compared to traditional banks.

Keywords: Islamic monetary instruments, conventional monetary instruments

JEL Classification Code: E02, E12, E42

1. Introduction

The financial system in a country is an economic order that plays a role in resolving monetary shocks. Nevertheless, monetary institutions also play an essential role in maintaining economic stability since the economy cannot run without the presence of monetary institutions. The monetary policy serves to run, regulate, and supervise the smooth running of the payment system in an area. In addition, monetary institutions are also tasked with anticipating shocks caused by internal and external factors. One of the monetary advances in Indonesia must be seen through the development of monetary institutions in the financial sector. On the eve of its turn of events, financial institutions in Indonesia regularly depend on interest to get as much profit as possible that can be expected.

The monetary framework is centered on a financial approach that encourages balance in the use of premium instruments so that premium becomes a fundamental variable in the definition of financial arrangements related to money and finance. It is seen from the side of ordinary banks. At the world level, an interest-based economy forms a trademark monetary cooperation. The premium weakens the world monetary system since poor and developing countries must continue to be monetarily subject to developing countries. Not being set in the stone nature of the return of premiums would make the behavior of capital holders generally involve their money as a means of collecting



payments through the monetary area instead of making a profit through valuable exercises in the original area.

This study aims to analyze the uniqueness of Islamic financial instruments compared to conventional financial instruments and to find out what distinguishes the Islamic monetary framework from the standard monetary framework. The advantages and disadvantages of Islamic and traditional monetary frameworks are also discussed in this paper.

2. Literature Review

The central bank's monetary policy intends to influence current economic activity and prices through transmission mechanisms (Warjiyo, 2021). It requires a sufficient understanding of the transmission mechanisms in the economy. Financial-related strategies can be communicated through different channels, for example, borrowing costs, total finances, credit, trade rates, resource costs, and assumptions. Therefore, a clear understanding of transmission is a way toward financial arrangements as a key that affects the course of finances and original costs later in life.

Since the New Finance Law in 1998, Indonesia has implemented a dual financial framework, under which commercial and Islamic banks can work side by side throughout Indonesia. With the enactment of the 1999 Bank Indonesia Law, Bank Indonesia has a dual order to implement arrangements related to ordinary finance and Islam. Since then, Islamic banking and finance have flourished.

In 2000, there were two Islamic banks and three Islamic specialty units (Islamic Specialty Units), with 65 workplaces, controlling only 0.17% of all financial resources. Before the end of 2010, 11 Islamic banks and 23 special Islamic units had been established with 1,477 workplaces and 1,277 work channels. The overall portion of the Islamic bank industry reaches 3.24% of all resources, equivalent to Rp 97.52 trillion, with a growth of 48% per year.

This trend at the country level further deepens the global financial lameness. Developed countries are victims of debt addiction, while poor and developing countries can never be free from the bondage of debt that continues to bubble (Chamid, 2013). The financial system of a country is strongly influenced by the economic system adopted. The economic system refers to a unified decision-making mechanism and institution that implements such decisions on production, consumption, and income distribution. Therefore, the economic system is something important for the economy of a country. Economic systems are formed due to various complex factors, for example, ideologies and belief systems, views on life, geographical environment, politics, socio-culture, and others (Kholis, 2017). An economic system contains 2 (two) sectors, namely the fundamental and financial sectors.



3. Research Methods

This research uses a descriptive qualitative approach, using the proximity of literature studies by collecting data from relevant scientific literature and the results of observations of reports on the receipts of Islamic Banks and Conventional Banks in 2020 and 2021. Another method of collecting data from literature studies obtained from book sources, article journals, and mass media related to the research.

4. Finding and Discussion

Islamic Monetary Financial System

Understanding the Islamic Monetary Framework is obtained from the Qur'an and as-Sunnah (Askari et al., 2014; Razaly et al., 2015), as is the translation of researchers of the spring of disclosure. In different structures, the construction of Islamic finance has been human progress that has not changed for quite a long time. In recent years, the design of Islamic finance has emerged as one of the most significant and fruitful current executions of a set of common Islamic laws and as a pilot for future changes and advances in Islamic law, as follows:

1. The presence of public resources within the monetary framework of the Islamic State belongs to Allah.
2. The Messenger of Allah is the primary individual who trains Islamic finance.
3. The Qur'an and Sunnah are the primary sources of Islamic finance.
4. The Islamic monetary framework is an inclusive monetary framework
5. Finance that is unique in Islam is that which upholds the monetary regulation of the Islamic State.
6. The Islamic monetary framework adheres to the rules of administrative distribution as a source of state income.
7. The Islamic monetary framework is described straightforwardly.
8. The monetary framework in the Islamic State is a development that encourages good
9. The Islamic monetary framework is the capital of resistance of Muslims.

So Islamic monetary instruments are tradable assets for any design in Islamic finance-related trading. Such assets may be cash, proof of responsibility for the substance, or honor to obtain or share with cash or other financial-related instruments. Islamic financial instruments can also be described as arrangements or actions that lead to financial -related assets of one substance and commitments or financial-related instruments of significant value from one component to another in monetary implementation that depend on the principles of the Islamic treasury. In its characteristics, here are the types of instruments, namely:

1. Short-Term Financial Instruments (Financial Market Instruments)
 - a. Interbank Financial Market



- b. Bank Indonesia Certificate
 - c. Certificate of Deposit
 - d. Financial Market Securities
 - e. Banker's Acceptance
 - f. Commercial Paper
 - g. Treasury Bills
 - h. Repurchase Agreement
2. Long-Term Financial Instruments in Stocks (Capital Market instruments)
3. Types of Islamic Financial Instruments. In Islamic monetary exercises, there are different types of monetary instruments. Islamic monetary instruments are recognized and collected by agreement as follows:
 - a. Venture contract is a kind of tijarah contract as a contract of insecurity. The meetings as agreed are as follows:
 - i. The Mudharabah Agreement is a type of cooperation agreement between at least two meetings in which the owner of the capital (shahibulmaal) shares a certain measure of capital with the supervisor (mudharib) to complete a business exercise with a proportion or distribution of profits for the benefits obtained by the understanding of both parties or earlier. Meanwhile, assuming that there is a calamity, it is only borne by the asset owner as long as there is no purpose or carelessness of the mudharib. This structure highlights the participation in the commitment of 100% of the capital of the owner of the capital and the mastery of the administrator.
 - ii. The Musyarokah Agreement is an agreement in a cooperation agreement that occurs between the owner of capital (local capital owner) to unite capital and lead the business together in a partnership, with a proportion of mutually agreed profit sharing. At the same time, misfortune is borne relatively according to the committed capital. This type of commitment from participating in meetings can be assets, supplies, business, talent, ownership, equipment or licensing, trust, or fame.
 - iii. Sukuk, commonly called Islamic bonds, is the protection of obligations with Islamic standards.
 - iv. Islamic stocks are goods that are consistent with Islam. A different condition is that the organization has somewhat lower exchange receivables compared to its unlimited resources below 45%, the organization must have few liabilities compared to the market capitalization value below 33%, and the organization has a small income payment below 5 %.



- b. The sale and purchase agreement or lease is said to be a kind of tijarah contract as a certainty. The Islamic monetary instruments remembered for this group of treaties are as follows:
 - i. Murabahah contract is the exchange of sales proceeds on the condition that the acquisition price and net income are achieved between the seller and the buyer. Also, a fee agreed upon between the buyer and the dealer on the hours of exchange should not change.
 - ii. A greeting contract is a contract for buying and selling goods whose merchandise does not yet exist. So, the merchandise is still suspended, but the instalments are done with real finance. From the beginning, this exchange looked like a conquest (a prohibited buying and selling practice due to some risks of obscurity). However, in this transaction, the quantity, quality, price, and time of delivery of goods must be determined definitively and, of course, by agreement of both parties.
 - iii. Istishna' is a contract like a greeting, but in the istishna contract, ' instalments are made beforehand and can be paid in portions (conditions) or conceded for a certain period. Istishna's contract is usually applied to assembly and development financing with an exceptional request purchase of merchandise. The buyer arranges for the maker (al-sani') to provide al-mashnu (the requested product), as indicated by the details required by the buyer (al-mustasni'), and exchanges it for a mutually agreed fee.
 - iv. Ijarah agreement is a lease agreement between the owner of the leased object and the tenant to obtain a profit on the leased object.
- c. The other contracts in the Islamic economy include:
 - i. Sharf agreement is an agreement to arrange the sale and purchase of money from one another. Foreign money trading exchange (foreign trade) can be carried out in an equivalent or unique monetary form.
 - ii. Wadiah contract is a protection contract from the party who owns the money or goods to the party who gets the store with a note that at any point the store is taken, the heirs of the store are obliged to return the cash or merchandise store. Wadiah is isolated in two, namely Wadiah Amanah and Wadiah Yadhamanah.
- d. The Development of Islamic Monetary Instruments, apart from the existence of primary monetary instruments, future improvements



require additional thinking about the existence of other monetary instruments as material for study in Islamic law, namely:

- i. Option or choice
- ii. A futures contract is a derivative contract that obliges the first parties to transact a particular asset at a predetermined date and price in the future.
- iii. Forward Purchased is a foreign exchange pre-purchase contract between a customer and a Foreign Exchange Bank.
- iv. Interest Rate Cap is an understanding or plan that protects the borrower from increasing the cost of a particular loan to the highest so that the borrower will not pay more than that financing fee; on a credit arrangement, the borrower is charged a fee.
- v. A forward Rate Agreement is an interest rate agreement challenging an agreement between two parties that agrees on an interest rate to be paid in the future on a specific date.
- vi. Repo Rate (Repurchase Agreement) is a transaction of buying and selling securities simultaneously on different settlement dates.

Next are some of the protections that are allowed or with accompanying notes:

1. Shares/Equity (Value or Offering), interest in stocks should be a tendency for Muslim financial advocates to replace interest in interest-generating securities or store authentication, regardless of whether the old-style fiqh later states that its value cannot be compared with Islamic monetary instruments because of the mudharabah or musyarakah contract. Value can be sold at any time in the optional marketplace without requiring support from the organization providing the offer. Meanwhile, mudharabah and unregulated depend on the support of shahibul mal (financial supporters) and organizations such as mudharib.
2. Market (Secondary) Islamic Auxiliary, it makes sense to trade stocks at market prices, allowing the setting up and acquisition of deals on stock exchanges as an extra market. The capital market is a method for the process of capital portion. Likewise, the capital market also serves as a consistent appraiser of the value of an organization. In monetary writing, productive capital markets must provide liquidity with the most nominal exchange fees to develop cost proficiency. Values that are supposed to reflect the natural value of an organization. A sane capital market is an event of intelligent behaviour in the cost of shares that corresponds to a reasonable profit level and assumptions.
3. Margin Trading (Edge Exchange), it is the credit sales movement. When selling shares on edge, financial supporters must have a store with an intermediary whose value is the exact level of the offer to be purchased. Then, at that time, the specialist initially lent assets to buy the shares.



4. The type of contract in Islam that can be equated with buying and selling is bai-muajjal or bai murabahah, which is maintained in Islam. After all, there is a note that even though this agreement is allowed. That is, its inevitable use is not recommended for fear that it will continue the entry for hypotheses or bet on stock trading. It is because theorists can develop their activities only with common prerequisites.
5. Islamic Bonds (muqaradah bonds), it is proposed as an option to attract bearing bonds. The Organisation of Islamic Cooperation (OIC) has authorized this monetary instrument in Jordan. Islamic securities are awarded by organizations determined to support certain ventures run by the organization. This task is separate from the overall exercise of the organization. Benefits are delivered intermittently depending on a certain agreed level. This rate is a proportion of the revenue share, so it uses the premise of profit sharing of misfortune. The agreement also accommodates growing bond instalments.
6. Helper market (assistance) for Securities, an optional market security exchange comes to the fore for liquidity purposes (as-suyulah). Almost all Islamic bonds are purchased for long-term efforts for development. The exchange still took place, but it was only at its development at a reasonable cost, comparable to the real one stated in the al-dayn creed (the bond of wills). Islamic bonds are not allowed in Islam because they include trade obligations. It is usury. Obligations are still obligations, even though essential resources uphold them.
7. Subordinates an Islamic Point of View, subordinates are a type of monetary design in planning innovative systems and answers to ensure danger. Things that are commonly used include the future/future and choices. Forward is an agreement to trade resources in the future at a set fee to be completed. At the same time, the choice is a right, not a commitment to trade hidden resources at an agreed cost and transport time.

It is strengthening the Islamic monetary institution, encouraging the increase of goods and ruthless Islamic-based administration, for example, having attractive goods that are shown by the quality of Islamic finance, after encouraging the consolidation of three state-owned Islamic banks. While simultaneously satisfying the number and nature of talent in Islamic finance. The Financial Services Authority (OJK) also supports the acceptance of innovations to develop administration further and improve proficiency. Such as strengthening Islamic monetary organizations, making Islamic monetary needs feasible, and empowering the advancement of the Islamic environment in coordination with halal businesses. The strengthening of Islamic monetary organizations, among other things, empowers the development of Islamic-based goods and a very aggressive administration, for example, possessing



extraordinary goods that are demonstrated by the nature of Islamic finance (Sofyan et al., 2021).

Indonesia's Islamic financial capability of Islamic monetary implementation has even received worldwide recognition from the achievement of several profound assessments in various reports on the implementation of Islamic monetary services around the world. The OJK stated that the enormous ability of Islamic finance in Indonesia must be wasted. Therefore, the institution has three centers of approach to boosting the domestic Islamic economy and finance. Among them is the strengthening of Islamic financial institutions, the creation of sustainable Islamic financial demand, and the development of an integrated Islamic financial ecosystem with the halal industry.

Conventional Monetary Financial System

Monetary Organization can be characterized as an element of business whose primary resource is a monetary resource or a case that can be offered, bonds, and advances, rather than as original resources such as structures, equipment, and unrefined substances (Sørensen, 2016). In law Number 14 of 1967 concerning Banking Standards, what is meant by the monetary organization is a large part of the substance that through exercises in the monetary field withdraws cash from the people in general and channels money back to the local area. That the monetary basis is the place of change or transfer of assets from parties experiencing an excess of reserves (excess of assets) to parties experiencing a shortfall of assets (shortfall of assets).

Generally, the types of Monetary Institutions are divided into 2 (two) namely Bank and Non-Bank Institutions (Cheng & Degryse, 2010). Both have different capacities and organizations, as follows:

1. Bank (distribution center), as referred to in Law no. 10 of 1998. It is a business substance that collects abundance from the entire population as a deposit reserve (Kryvych & Goncharenko, 2020). It disseminates it throughout the population as a credit or construction that may be unique to facing the individual's way of life. Banking Associations in Indonesia:
 - a. National Bank (National Bank) is a bank with an administration responsible for managing, maintaining, and maintaining the integrity of the value of financial state, directing the implementation of financial arrangements, as well as planning, encouraging, and regulating all banks.
 - b. Business Bank (Commercial Bank) is a business entity that runs an ordinary business that, in its implementation, offers this type of assistance in installment traffic (Cosma et al., 2017). Financial design in Indonesia consists of Commercial Bank (BU) and Rural Banks (BPR). The difference in both is as far as functional exercise. BPR cannot spur interest stores and has a limited range and functional exercises. The main elements of the bank are:



- i. Collecting public assets as a reserve fund.
 - ii. Conveying assets to the general public as credit.
 - iii. Streamline exchange and cash flow.
2. Non-Bank (non-deposit), Non-Bank Financial Organizations are business institutions that complete exercises in the financial-related field, either directly or indirectly, collecting resources from the entire population and transferring them back to environmentally valuable exercises. The practice of Non-Bank Financial Associations revolves around one financial-related measure (Financial Stability Board, 2021). Various Associations Related to Non-Bank in Indonesia:
 - a. Venture Capital (Investment Financing) is a business that runs a financing business as a value of cooperation in an organization that receives financing assistance for a certain period.
 - b. Factoring is a business entity that conducts financing exercises through purchases and transfers and supervises momentary receivables and cases of an organization (debt holder) from a local or foreign exchange.
 - c. Insurance (Protection) is a definition between at least two meetings in which a backup plan binds itself to the guaranteed one by obtaining a protection fee to compensate the protected due to misfortune, loss, or loss of anticipated benefits. Alternatively, conversely a lawful obligation to an outsider that can be borne by the protected person arising out of an unlikely event or to give instalments that depend on the death or life of the protected person.
 - d. A Pension Fund (Annuity reserve benefit deposit) is an institution or legitimate substance that relates to a defined benefit program to provide government assistance to representatives of the organization, particularly individuals who have resigned.
 - e. A pawnshop is a service organization in the field of credit to the broader community by holding an item as a down payment guarantee.
 - f. The Capital Market is a market that exchanges various long-term monetary instruments (protection), both as obligations and values provided by privately owned businesses.
 - g. The currency market is a market (office) that provides instantaneous financing (under one year). The currency market does not have an actual place like the capital market.
 - h. Common Assets Common Assets are holders that collect assets from local financial support areas to add resources into a protection portfolio by venture directors. Protection portfolios include stocks, securities, currency market instruments, shops, and cash.

It tends to be made clear that almost all monetary institutions, both bank, and non-bank financial institutions, are still overwhelmed by the traditional



framework, even though each institution opens Islamic administration, both general administrations. Moreover, the administration of Islamic units is not 100% pure Islamic. Since producers' approach generally works, it changes from indigenous banking and monetary organizations, where their framework considers or is still "spooky" from the usual framework.

5. Conclusions

It can be very well concluded that Islamic financial instruments are zakat, the prohibition of usury, financial participation, government-backed pensions, the prohibition of a messy strategic approach, and the duties of the state within the financial framework. Fundamentally more to add up to the monetary resource, which is about 20%. Therefore, public authorities, national banks, and monetary specialists concerned with the Islamic monetary framework must work more seriously. A monetary instrument is also an agreement or agreement whereby the agreement will determine the hazard and benefit profile of the instrument by its principles. Business-related agreements and arrangements can be described into four general characterizations, explicit contingent arrangements, financing contracts, intermediation arrangements, and social government assistance contracts. It is feasible to design contracts related to financial that became known as fundamental financial instruments, including mudharabah, musyarakah, murabahah, encouraging and encouraging news, customized istishna, and istishna, bittamlik ijarah, and ijarah, wadiah, qardh. also, qardhul hasan, sharf, wakalah, kafalah, and hiwalah. In addition to vital monetary instruments, future developments also require additional thinking about the existence of other monetary instruments as study material in Islamic law: Options, Futures Contracts, Forward Purchased, Interest Rate Cap, Forward Rate Agreement, and Repo Rate.

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