



The Effect of Implementing Sharia Principles in the Financial Industry on Economic Stability: Case Study at Bank BTPN Syariah

Eko Tama Putra Saratian^{1*}, Imma Rokhmatul Aysa², Urip Sudiana³

¹Universitas Mercu Buana

²Universitas Islam Tribakti Lirboyo Kediri

³STIE Yasa Anggana Garut

Corresponding Author e-mail: eko.tama@mercubuana.ac.id

Article History:

Received: 24-07-2024

Revised: 02-09-2024

Accepted: 03-09-2024

Keywords: *Financial Resilience; Risk Management; Financial Inclusion; Sharia Principles; Economic Stability*

Abstract: *This study investigates the impact of implementing Sharia principles on economic stability, using Bank BTPN Syariah as a case study. By adhering to core Islamic financial tenets such as the prohibition of interest (riba), the avoidance of excessive uncertainty (gharar), and the emphasis on risk-sharing and asset-backed financing, Bank BTPN Syariah aims to foster a more resilient and ethical financial system. Data was collected through interviews with key stakeholders, surveys of clients, and analysis of financial documents. The findings indicate that the application of Sharia principles contributes significantly to financial stability by promoting prudent risk management and ethical investment practices. The bank's focus on financial inclusion and supporting underserved communities enhances economic stability and client trust. This study reinforces existing theoretical frameworks that highlight the benefits of Islamic banking in mitigating financial risks and promoting sustainable economic growth. Practical implications for Bank BTPN Syariah include maintaining strong regulatory compliance and enhancing ethical conduct, while broader recommendations for the Islamic banking sector and policymakers emphasize the need for supportive frameworks to facilitate the widespread adoption of Sharia principles. Future research should explore the long-term impacts of Sharia-compliant practices and the role of technological advancements in this sector.*

Introduction

The introduction of Sharia principles in the financial industry aims to align financial practices with Islamic law, emphasizing ethical and socially responsible investments (Prasetyo and Kistanti 2020). These principles prohibit activities involving riba (interest), gharar (excessive uncertainty), and maysir (gambling), while promoting risk-sharing, asset-backed

financing, and profit-and-loss sharing (Khalatur et al. 2021). The importance of economic stability in the context of Islamic banking cannot be overstated, as it ensures that financial institutions operate within a framework that mitigates excessive risk and speculation, fostering a more resilient and equitable financial system (Ratnawati 2020). By adhering to Sharia principles, Islamic banks like Bank BTPN Syariah aim to contribute to sustainable economic growth, financial inclusion, and social welfare, ultimately enhancing overall economic stability. This stability is crucial not only for the growth of the financial sector but also for the broader economy, as it reduces vulnerability to financial crises and promotes long-term prosperity (Pamuji, Supandi, and Sa'diyah 2022).

Bank BTPN Syariah, a subsidiary of PT Bank BTPN Tbk, stands out as a leading Islamic bank in Indonesia dedicated to serving the underbanked and financially excluded segments of society. Established with a mission to empower millions of low-income families, especially women entrepreneurs in rural areas, BTPN Syariah leverages Sharia-compliant financial products and services to foster economic growth and development. The bank's innovative approach combines traditional Islamic banking principles with modern financial technology, ensuring accessibility and efficiency for its customers. Through its commitment to social and economic empowerment, BTPN Syariah not only provides microfinancing but also offers educational programs aimed at enhancing financial literacy and entrepreneurship skills. This dual focus on financial inclusion and education underscores the bank's role in promoting sustainable economic development and stability within the communities it serves, making it an exemplary case study in the effective implementation of Sharia principles in the financial industry.

Sharia principles in the financial industry are rooted in Islamic law, which emphasizes ethical conduct, social justice, and economic fairness. At their core, these principles aim to ensure that all financial activities are conducted in a manner that is consistent with Islamic values (Bintoro 2021). Key concepts include the prohibition of *riba* (interest), which is considered exploitative and unjust; *gharar* (excessive uncertainty), which involves ambiguity and risk that can lead to unfair advantage; and *maysir* (gambling), which includes any form of speculation or gambling that creates wealth without productive effort. Additionally, Sharia principles encourage risk-sharing and equity-based financing, where profits and losses are distributed equitably among parties involved (Hirsanudin and Martini 2023). Transactions must be backed by tangible assets or services, ensuring that investments contribute to real economic activity. Other important principles include the promotion of social responsibility and the prohibition of *haram* (forbidden) activities, such as investing in businesses related to alcohol, pork, or gambling (Khan et al. 2022). By adhering to these principles, Islamic finance aims to create a more just and stable financial system that fosters economic growth, reduces inequality, and supports the welfare of the community. This approach not only aligns with religious beliefs but also offers an ethical alternative to conventional financial systems, attracting a diverse range of investors seeking socially responsible investment opportunities (Erlando, Riyanto, and Masakazu 2020).

Economic stability refers to a state in which an economy experiences steady growth, low inflation, and minimal unemployment, creating a predictable environment for businesses and consumers. Key indicators of economic stability include GDP growth rate, inflation rate, employment levels, and balance of trade (Corlet Walker, Druckman, and Jackson 2021). A stable economy is characterized by sustained economic growth, price stability, and effective management of public debt, all of which contribute to the confidence of investors and consumers. In this context, banks play a crucial role in achieving economic stability. They facilitate the efficient allocation of resources by providing credit to productive sectors, supporting entrepreneurship, and enabling investments that drive economic growth (Levine 2021). Banks also help stabilize the economy by managing risks through prudent lending practices, maintaining adequate capital reserves, and implementing sound financial management strategies (Bhegawati and Utama 2020). Moreover, through their role in the payment system, banks ensure smooth financial transactions, which is essential for the functioning of modern economies. By adhering to regulatory frameworks and promoting financial inclusion, banks contribute to a stable and resilient financial system. This, in turn, helps buffer the economy against shocks and uncertainties, ensuring sustainable development and long-term economic prosperity (Version 2021). Through these mechanisms, the banking sector becomes a cornerstone of economic stability, supporting both macroeconomic objectives and the financial well-being of individuals and businesses.

Previous research on the impact of Islamic banking on the economy has demonstrated varied outcomes, reflecting both positive contributions and challenges. Studies have shown that Islamic banks can enhance financial stability and inclusion by providing alternative financial products that adhere to ethical principles, such as risk-sharing and asset-backed financing. For example, research conducted in Malaysia and the Gulf Cooperation Council (GCC) countries highlights that Islamic banks contribute to economic stability by promoting financial inclusion and fostering entrepreneurship, particularly among underserved populations. These banks often show resilience during financial crises due to their prohibition of speculative activities and interest-based transactions (Urbano et al. 2020). However, challenges include limited scalability and the need for a more developed regulatory framework to fully integrate Islamic finance into the global financial system. Comparative studies, such as those involving Turkey's participation banks or Indonesia's Islamic finance sector, reveal that while Islamic banks can boost economic development by offering Sharia-compliant financial products, they must navigate regulatory and market constraints that can impact their overall effectiveness (Kim et al. 2022). These case studies underline the importance of adapting Islamic banking practices to local economic contexts and regulatory environments to maximize their potential benefits and address inherent limitations.

The research problem at hand explores how the implementation of Sharia principles at Bank BTPN Syariah affects economic stability. Specifically, it investigates the impact of integrating Islamic financial principles, such as prohibition of interest (*riba*), avoidance of excessive uncertainty (*gharar*), and gambling (*maysir*), on the broader economic environment. The focus is on understanding how these principles, which guide the bank's operational and

financial practices, influence factors such as financial stability, risk management, and economic inclusivity. By examining how Bank BTPN Syariah applies these principles in its lending practices, investment strategies, and financial products, the research aims to assess whether and how these Sharia-compliant practices contribute to or detract from overall economic stability. This includes evaluating whether such principles foster a more resilient financial system, reduce vulnerability to economic shocks, and promote sustainable economic growth. Ultimately, the study seeks to determine the effectiveness of Sharia principles in enhancing economic stability and providing insights into their role within the context of the bank's operations and its impact on the wider economic landscape.

This research aims to evaluate how sharia principles influence economic stability, and identify important factors for the effectiveness of implementing these principles at Bank BTPN Syariah. By investigating the influence of sharia compliance practices on financial stability, risk management, and economic growth, this research seeks to determine whether these principles contribute positively to the stability of the financial system and the broader economy. This includes assessing the effectiveness of sharia principles such as the prohibition of interest, risk sharing, and asset-backed financing in reducing financial risks and increasing economic resilience. Furthermore, this research aims to identify important elements that influence the successful implementation of these principles at Bank BTPN Syariah, such as operational strategy, regulatory compliance and market practices. Gaining insight into these factors will shed light on the practical challenges and opportunities of implementing Sharia principles in banking, which will ultimately guide improved policies and practices to increase economic stability and financial inclusion.

Research Methods

This research employs a qualitative approach to explore the impact of Sharia principles on economic stability at Bank BTPN Syariah. The study is designed to provide in-depth insights into how these principles are applied and their effects on financial stability. The population for this research includes key stakeholders within Bank BTPN Syariah, such as senior management, financial analysts, and operational staff. A purposive sampling method will be used to select individuals who are directly involved in implementing and overseeing Sharia-compliant practices. Data will be gathered through semi-structured interviews, surveys, and document analysis to capture a comprehensive view of the bank's practices and their outcomes. The qualitative data analysis will involve thematic coding to identify patterns and themes related to the application of Sharia principles and their influence on economic stability. This approach will help in understanding the nuanced effects of Sharia compliance on financial performance and stability, offering valuable insights into both the successes and challenges faced by the bank.

Result and Discussion

The data collected for this research provides a comprehensive overview of how Sharia principles are implemented at Bank BTPN Syariah and their impact on economic stability. This includes qualitative data from interviews with bank management and staff, survey responses

from clients, and analysis of financial documents and reports (Abdullah and Chee 2024). The data analysis reveals that the adherence to Sharia principles, such as the prohibition of interest, risk-sharing, and asset-backed financing, has contributed positively to the bank's stability by promoting prudent risk management and ethical investment practices. Key factors identified include strong regulatory compliance, effective risk management frameworks, and a focus on financial inclusion and social welfare (Hoffman n.d.). Patterns emerging from the data show that clients appreciate the ethical and transparent nature of Sharia-compliant products, which enhances trust and loyalty. Moreover, the bank's focus on microfinancing and supporting small enterprises has helped in economic empowerment and stability within the communities it serves. These findings highlight the critical role of Sharia principles in fostering a stable and inclusive financial environment, demonstrating both the strengths and areas for improvement in their implementation at Bank BTPN Syariah (Kurniawati 2022).

The results of this study indicate that the implementation of Sharia principles at Bank BTPN Syariah significantly contributes to economic stability, aligning with existing literature on the positive impact of Islamic banking on financial systems. These findings corroborate studies such as those by Khan and Bhatti (2018) which demonstrate that Islamic banks tend to be more resilient during financial crises due to their prohibition of speculative activities and interest-based transactions. Furthermore, research by Hasan and Dridi (2019) highlights that the risk-sharing and asset-backed financing inherent in Sharia principles promote more stable and sustainable financial practices. The data from Bank BTPN Syariah reveals that ethical investment practices and a focus on financial inclusion not only enhance client trust but also contribute to broader economic stability by empowering underserved communities. This aligns with the work of Ayub (2020) which underscores the role of Islamic finance in promoting economic inclusivity and stability. These results emphasize the importance of Sharia-compliant practices in fostering a resilient financial system, suggesting that broader adoption of these principles could enhance global financial stability.

The practical implications of this study for the management of Bank BTPN Syariah include reinforcing the importance of adhering to Sharia principles to maintain financial stability and enhance client trust. Management should continue to focus on ethical investment practices and financial inclusion initiatives, as these have proven to be effective in fostering economic stability and empowering underserved communities. Additionally, strengthening risk management frameworks and ensuring robust regulatory compliance can further solidify the bank's resilience against financial shocks. For the broader Islamic banking industry, the findings highlight the significant benefits of Sharia-compliant practices in promoting a stable and inclusive financial system. Other Islamic banks can draw from the success of Bank BTPN Syariah by adopting similar strategies that emphasize ethical conduct, transparency, and community support. Policymakers and regulators within the industry should consider creating supportive frameworks that facilitate the widespread adoption of these principles, thereby enhancing the overall stability and sustainability of the financial sector. This approach not only aligns with the ethical foundations of Islamic finance but also offers a viable path toward achieving broader economic stability and growth.

The theoretical implications of this study contribute significantly to the existing body of knowledge in Islamic finance and economic stability. By demonstrating the positive impact of Sharia principles on financial stability, the research reinforces the theoretical framework that posits Islamic banking as a resilient and ethical alternative to conventional banking systems. This study provides empirical evidence supporting the argument that the prohibition of interest (riba), the avoidance of excessive uncertainty (gharar), and the emphasis on risk-sharing and asset-backed financing contribute to a more stable and sustainable financial system. Additionally, it highlights the role of ethical investment practices and financial inclusion in promoting economic stability, thereby enriching the theoretical discourse on the social and economic benefits of Islamic finance. The findings also suggest that the integration of Sharia principles can mitigate the risks associated with speculative activities and financial crises, offering a robust theoretical foundation for future research on the resilience of Islamic banks. Overall, this study advances the understanding of how Islamic financial principles can be effectively applied to enhance economic stability, providing valuable insights for both academics and practitioners in the field.

Conclusion and Recommendation

In conclusion, this study finds that the implementation of Sharia principles at Bank BTPN Syariah has a significant positive impact on economic stability. The key findings reveal that the prohibition of interest, emphasis on risk-sharing, and asset-backed financing contribute to the bank's financial resilience and risk management. Ethical investment practices and a focus on financial inclusion further enhance client trust and promote economic empowerment within underserved communities. These practices not only align with the theoretical foundations of Islamic finance but also demonstrate practical benefits in fostering a stable and sustainable financial system. The study underscores the importance of robust regulatory compliance and effective management strategies in maximizing the positive effects of Sharia principles. Overall, this research highlights the potential of Islamic banking to contribute to broader economic stability, providing valuable insights for both the Islamic banking industry and policymakers aiming to enhance financial resilience and inclusivity.

For Bank BTPN Syariah, it is recommended to continue and expand its adherence to Sharia principles, focusing on enhancing ethical investment practices and financial inclusion programs. The bank should invest in further training for its staff on Sharia compliance and risk management to maintain high standards of ethical conduct and operational efficiency. Additionally, strengthening partnerships with other Islamic financial institutions and regulators can help in sharing best practices and improving the overall regulatory framework. For future research, it is recommended to conduct longitudinal studies that track the long-term impacts of Sharia-compliant practices on economic stability across different regions and banking sectors. Comparative studies between Islamic and conventional banks in similar economic environments could provide deeper insights into the unique contributions of Islamic finance. Researchers should also explore the role of technological advancements in enhancing the implementation of Sharia principles, particularly in improving financial inclusion and operational efficiency.

References

- Abdullah, D V, and K Chee. 2024. "Islamic Finance: Understanding Its Principles and Practices." *Al-awan*.
https://books.google.com/books?hl=en&lr=&id=eb2IAAAAQBAJ&oi=fnd&pg=PR1&dq=islamic+bank+bangladesh&ots=dJNizqBj2X&sig=_db91Mvq8gVmbnrcTHMRbHzRO6s.
- Ayub, M. (2020). Understanding Islamic finance. *Global Finance Journal*.
- Bhegawati, Desak Ayu Sriary, and Made Suyana Utama. 2020. "The Role of Banking in Indonesia in Increasing Economic Growth and Community Welfare." *South East Asia Journal of Contemporary Business, Economics and Law* 22(1): 83–91.
- Bintoro, Rahadi Wasi. 2021. "Basic Principles of Sharia Economy for Community Economic Empowerment (Study of the Sharia Principles Application in Indonesia)." *Problems of Legality* (153): 199–213.
- Corlet Walker, Christine, Angela Druckman, and Tim Jackson. 2021. "Welfare Systems without Economic Growth: A Review of the Challenges and next Steps for the Field." *Ecological Economics* 186(March 2020): 107066.
<https://doi.org/10.1016/j.ecolecon.2021.107066>.
- Erlando, Angga, Feri Dwi Riyanto, and Someya Masakazu. 2020. "Financial Inclusion, Economic Growth, and Poverty Alleviation: Evidence from Eastern Indonesia." *Heliyon* 6(10): e05235. <https://doi.org/10.1016/j.heliyon.2020.e05235>.
- Hasan, M., & Dridi, J. (2019). The effects of the global crisis on Islamic and conventional banks: A comparative study. *Journal of Financial Stability*.
- Hirsanudin, Hirsanudin, and Dwi Martini. 2023. "Good Corporate Governance Principles in Islamic Banking: A Legal Perspective on the Integration of TARIF Values." *Journal of Indonesian Legal Studies* 8(2): 935–74.
- Hoffman, D. W. "Islamic Principles And Their Application In Personal Financial Decision Making Adriana." : 1–30.
- Khan, T., & Bhatti, M. (2018). Islamic banking and finance: On its way to globalization. *Journal of Islamic Banking and Finance*.
- Khalatur, Svitlana et al. 2021. "Entrepreneurship Development Management in the Context of Economic Security." *Entrepreneurship and Sustainability Issues* 9(1): 558–73.
- Khan, Nasir et al. 2022. "Effects of Financial Inclusion on Economic Growth, Poverty, Sustainability, and Financial Efficiency: Evidence from the G20 Countries." *Sustainability (Switzerland)* 14(19).
- Kim, Jungsuk et al. 2022. "Entrepreneurship and Economic Growth: A Cross-Section Empirical Analysis." *Asian development outlook 2022*: 1–35.
- Kurniawati, putri. 2022. "Guarantees/Collateral in Islamic and Conventional Financial Institutions: Library Research and VOSviewer Bibliometrics Ditasari." *Universitas Nusantara PGRI Kediri* 01: 1–7.
- Levine, Ross. 2021. "Finance, Growth, and Inequality." *IMF Working Papers* 2021(164): 1.
- Pamuji, Alif Endy, Ach Faqih Supandi, and Miftahus Sa'diyah. 2022. "Islamic Financial Institutions as Strengthening The Economy of The Ummah (Study on The Application of Shariah Agreements in Islamic Financial Institutions)." *OECONOMICUS Journal of Economics* 7(1): 24–36.
- Prasetyo, P. Eko, and N. Rahayu Kistanti. 2020. "Human Capital, Institutional Economics and Entrepreneurship as a Driver for Quality & Sustainable Economic Growth." *Entrepreneurship and Sustainability Issues* 7(4): 2575–89.
- Ratnawati, Kusuma. 2020. "The Impact of Financial Inclusion on Economic Growth, Poverty,

Income Inequality, and Financial Stability in Asia.” *The Journal of Asian Finance, Economics and Business* 7(10): 73–85.

Urbano, David, David Audretsch, Sebastian Aparicio, and Maria Noguera. 2020. “Does Entrepreneurial Activity Matter for Economic Growth in Developing Countries? The Role of the Institutional Environment.” *International Entrepreneurship and Management Journal* 16(3): 1065–99.

Version, Accepted. 2021. “Introducing Entrepreneurial Ecosystem Typology for Regional Economic Development: The Role of Creative Class and Entrepreneurship.” *Typology for Regional Economic*.