

Conceptual Model for Developing Islamic Bank Products in Indonesia

Faizi^{1*} 

ABSTRACT

Most Muslim populations in Indonesia do not consider Islamic banking products essential. There is a public perception that Islamic banking products still need to compete with conventional banking products. Existing Islamic banking products mostly replicate conventional banking products. The lack of product development, innovation, and Sharia-compliant product design has led customers to view Sharia products as similar to conventional products. The slow growth of Islamic banks in Indonesia is evident in their market share, which is only 10.69% of the national banking market by the end of 2022. This study investigates weaknesses in Islamic banking product development in Indonesia and proposes a conceptual model for the development of Islamic banking products. The research approach employed a qualitative methodology utilizing constructivism and pragmatic paradigms, as well as case study strategies. Primary data was collected through focus-group discussions and interviews. The findings indicate that Islamic bank products lack explicit Sharia value chains, and are limited to imitating conventional products. Consequently, these replicated products have low competitiveness and weak market penetration compared with those of traditional banks. Additionally, this study suggests a conceptual model for Islamic banking product development consisting of three layers: platform, construct, and outcome. This model serves as a foundation for developing Islamic banking products that are distinct from conventional banking products. The uniqueness of these products is a critical factor determining their future success in the Islamic banking market.

Keywords: Conceptual model, Sharia products, Islamic banks, Sharia values chain, Innovation.

¹ Department of Islamic Economics, Faculty of Economics and Business,
Universitas Pembangunan Nasional Veteran Jakarta, Indonesia.
faizi.feb@upnvj.ac.id

Received on 18/4/2023 and Accepted for Publication on 31/12/2023.

النموذج المفاهيمي لتطوير منتجات البنوك الإسلامية في إندونيسيا

فايزي¹

ملخص

إن غالبية المجتمعات المسلمة في إندونيسيا لا تعتبر منتجات البنوك الإسلامية أمراً أساسياً؛ فثمة إدراك عام يتمثل في أن منتجات البنوك الإسلامية مازال عليها أن تتنافس مع منتجات البنوك التقليدية. فمنتجات البنوك الإسلامية القائمة هي في معظمها ليست سوى تكرار لمنتجات البنوك التقليدية. وإن غياب تطوير المنتجات والإبداع وتصميم المنتجات وفق الشريعة الإسلامية أدى إلى أن ينظر الناس إلى منتجات البنوك الإسلامية على أنها مشابهة لمنتجات البنوك التقليدية. وإن النمو البيئي للبنوك الإسلامية في إندونيسيا يظهر في انخفاض حصتها السوقية التي لا تتجاوز 10.69% من مجمل السوق المصرفي الوطني بحلول عام 2022. تبحث هذه الدراسة في نقاط الضعف في تطوير منتجات البنوك الإسلامية في إندونيسيا وتقدم نموذجاً مفاهيمياً لتطوير منتجات البنوك الإسلامية. وقد تم الحصول على البيانات الأولية من خلال مناقشات مجموعات التركيز والمقابلات. وتبين أن منتجات البنوك الإسلامية تعاني من نقص في سلاسل القيم الخاصة بالشريعة الإسلامية وأنها تقتصر على توفر الإمكانية للبدء بإجراءات تتعلق بمنتجات البنوك التقليدية. لذا فإن منتجات البنوك الإسلامية تقتصر إلى التنافسية ولديها إمكانية منخفضة في الدخول إلى السوق المصرفي. ويعد النموذج المقترح أساساً لتطوير منتجات البنوك الإسلامية التي عليها أن تتميز بالنفرد والتميز.

الكلمات الدالة: نموذج مفاهيمي، تطوير منتجات البنوك الإسلامية، إندونيسيا.

1 قسم الاقتصاد الإسلامي، كلية الاقتصاد والأعمال، جامعة بمبانجونان ناسيونال فيتيران جاكرتا، إندونيسيا.

faizi.feb@upnvj.ac.id

تاريخ استلام البحث 2023/4/18 وتاريخ قبوله 2023/12/31.

Introduction

Islamic banking has had a significant impact on Indonesia's financial industry, shaping the country's financial landscape. The establishment of the first Islamic bank, Bank Muamalat Indonesia in 1992 marked a crucial shift in the banking sector, providing an alternative system that adheres to Islamic principles. This includes the avoidance of interest (*riba*) and the promotion of risk-sharing and ethical investment practices. Since its inception, Islamic banking has experienced steady growth in Indonesia, offering a wide range of Sharia-compliant products and services tailored to meet the needs of customers seeking alternative financial solutions. The introduction of Islamic banking has significantly transformed the country's financial sector, presenting a distinctive model based on Islamic law. This exceptional approach not only aligns with the religious and ethical values of the population, but also introduces a novel dimension to the financial market.

Islamic banks operate on the principles of profit-sharing, risk-sharing, and the avoidance of interest, aligning their activities with Islamic law. This approach has influenced every aspect of the banking process, from investment to lending, and has had a remarkable impact on Indonesia's overall economic landscape. However, the growth rate has been relatively slow over the past 30 years from 1992 to 2022, with Islamic banks holding only 10.69% of the total national banking market share by 2022 (www.beritasatu.com, 2022). The existence of Islamic banks as alternatives raises two fundamental issues. First, the obligation to adhere to the Sharia principles necessitates the use of different operational mechanisms. Second, the use of profit-sharing instead of interest presents a challenge in creating unique and distinct "Islamic bank products" compared to those of conventional banks (Medyawati & Yunanto, 2019; Zaini et al., 2019).

Islamic banking in Indonesia has encountered numerous challenges in its development, and addressing these issues is critical for its continued growth and success in the country.

Regulatory concerns have presented an obstacle to the expansion of Islamic banking products, as the industry must navigate complex legal frameworks to ensure compliance with Sharia principles. Limited product innovation has also impeded the sector's progress. There is a pressing demand for new and innovative Islamic financial products that cater to the diverse needs of customers while adhering to Sharia principles. The lack of funds and government support further compounds these challenges, making it arduous for Islamic banks to invest in research and development of new products and services (Ayyub et al., 2020; Ismal, 2011).

Additionally, establishing customer preferences and trust in Islamic banking products is fundamental. Accomplishing this objective necessitates educating the public about the principles and advantages of Islamic finance while concurrently delivering an exceptional customer experience. Moreover, comprehending market demand and economic conditions is paramount. Islamic banks must anticipate and respond to shifts in market trends and economic conditions to remain competitive and pertinent in the financial landscape (Rama, 2017). Furthermore, ensuring Sharia compliance in all aspects of banking operations is indispensable. This entails continuous oversight and scrutiny to uphold the integrity of Islamic finance and instill trust within the community (Faizi et al., 2021).

The development of Islamic banking in Indonesia is a complex and intricate landscape that demands a strategic approach to surmount the challenges and drive sustainable growth. The integration of Islamic banking into the Indonesian financial system has made substantial progress over the past decade, but still confronts a variety of challenges. In recent years, the Indonesian government has made efforts to support the development of Islamic banking through regulatory reforms and initiatives to promote financial inclusion.

However, further support and collaboration between the government and Islamic financial institutions are still required to overcome the existing barriers (Purbayati et al., 2021). One of the key areas for improvement pertains to the expansion of Islamic banking products and services to cater to a broader customer base. The potential to attract a larger market share and meet the diverse financial needs of Indonesian consumers lies in innovating product offerings that align with Sharia principles. This necessitates investment in research and development to bring new and innovative Islamic financial products to the market (Kasri & Kassim, 2009).

Additionally, paramount for the sustainable growth of Islamic banking in Indonesia is the establishment of trust and confidence among customers. This can be achieved through transparent and ethical practices, as well as providing reliable and competitive financial solutions. Education and awareness campaigns about the benefits of Islamic finance also play a crucial role in fostering trust and increasing the usage of Islamic banking products (Rahman & Santoso, 2019).

Moreover, aligning with market demand and economic conditions is imperative for the long-term success of Islamic banking. Adapting to changing consumer preferences and economic trends will enable Islamic banks to remain competitive and relevant in the dynamic financial landscape of Indonesia (Hasan, 2023). Hence, addressing these challenges and seizing growth opportunities will be instrumental in enhancing the development of Islamic banking in Indonesia and ensuring its continued success. As Islamic banking in Indonesia continues to evolve, it is imperative for financial institutions to consider the diverse needs of the market and innovate their product offerings. The development of new and innovative Islamic financial products tailored to the unique requirements of Indonesian consumers is essential for the growth and expansion of the sector.

Research on the development of sharia products in Islamic financial institutions, both banks and non-banks, has

been conducted using a variety of focuses and approaches. For example, Sharia product development, using the theory of the Pyramid of Maslahah (Yumna, 2019), development and regulations of Islamic banking products, with a specific focus on Islamic house financing in Malaysia (Abdul Aris et al., 2013), research on Sharia product development using network theory approach, specifically the FORFLOW-Process-Model (FFPM) and Petri-Nets (PN), to model and optimize the product development process (PDP) in Islamic banks (Chahin et al., 2016). Calder (2020) conducted a research study on the evolution and various definitions of the terms "Sharia-compliant" and "Sharia-based" within the Islamic finance context. The study delves into the emergence of these terms, their implications, and the debates surrounding their meanings in the Islamic finance industry. Mukhlisin and Suhendri (2018) employed a corporate strategy approach to investigate the Sharia product development strategy in Indonesia. Zulfikar (2020) conducted a study that examined the challenges and opportunities for Islamic banking in Indonesia, with a particular focus on product innovation. The study concluded that the main challenges include limitations in human resources and information technology, regulatory support, crisis management, and competition. 'Ilmi (2023) investigated the significance of product innovation in Islamic financial institutions and the need to harmonize Sharia economic law with relevant laws and regulations. The study also discussed the development of Islamic financial products and transactions within the framework of *ijtihad*.

Given the lack of competitiveness and limited market penetration of Islamic banking products in Indonesia, this study investigates weaknesses in Islamic banking product development in Indonesia and suggests a conceptual model for the development of Islamic banking products based on the Sharia value chain. The model seeks to address the main obstacles

to Islamic bank product development, including Sharia value chains, policies, regulations, strategies, and governance. By incorporating Sharia value chains as a core element, this study introduces a new concept that places ethical Islamic banking at the forefront. This study proposes three research questions to address the problems faced in the development of Islamic banking products in Indonesia.

1. How do customers and stakeholders perceive the performance of Islamic banking products?
2. What development strategies can Islamic banks utilize to gain a competitive advantage?
3. What constitutes an effective conceptual model of bank product development?

Research Methodology

This study adopts a qualitative method in the form of exploratory research. This allowed the researcher to delve deeper into an under-studied phenomenon worthy of further exploration. This study used an exploratory research design, because researchers have little understanding of many issues regarding the weaknesses and challenges in developing Islamic banking products in Indonesia. Robson and McCartan (2016) stated that exploratory studies are used to determine what is happening, particularly in poorly understood situations, seeking new insights, asking questions, assessing phenomena in new light, and negating ideas and hypotheses for future research. This design is best suited to this study, because qualitative approaches are more responsive to insiders' views and definitions of situations. Hence, this study involved stakeholders who understood and had experience in the research topic. Denzin and Lincoln (2017) stated that qualitative research is a unique approach for understanding and interpreting current phenomena objectively, transparently, and accountably. Therefore, it involves various aspects and specific criteria that align with the scientific standards.

The study employed two stages of data collection: focus group discussions (FGDs) and interviews. These techniques were selected based on considerations of how well the data

reflects the domain and study context, the practicality of the research process (Marshall & Rossman, 1999; Mason, 2002), and the ontological and epistemological assumptions guiding the research (Delmont & Mason, 1997).

The first stage, FGDs, was conducted in Surabaya, East Java, in May 2020. The event had 60 participants including academics, Sharia consultants, banking experts, and banking customers. The participants provided their assessments by completing a questionnaire. Subsequently, they were divided into six groups, where each group expressed their opinions and evaluations of Islamic banking product achievements based on interest and expected satisfaction levels. The FGD data was analyzed using the Important Performance Analysis (IPA) technique, which compares the performance of Islamic banking products against stakeholders' levels of interest or satisfaction. The IPA produced two key results: first, it identified priority products that require improvement owing to low performance, and second, it identified priority products that should be maintained for their high performance.

Data obtained from the selected practitioners and Sharia banking managers was collected through interviews. These interviews aimed to reveal information related to product development practices and internal organizational strategies based on five aspects: experience, opinion, feeling, knowledge, and input.

In the second stage, in-depth interviews were conducted with a small group of participants. Only seven of the 60 participants from the FGDs were selected for the interviews. The participants were Islamic banking product development managers from BNI Syariah, BRI Syariah, Bank Muamalat, Bank Bukopin Syariah and BCA Syariah. Open-ended questions were predominantly used in the interviews to explore informants' opinions, ideas, and experiences

(Denscombe, 2014). The interview data was analyzed using NVivo software, specifically designed to process and analyze qualitative data. NVivo enables researchers to classify and organize large amounts of information, study complex relationships within data, and generate models through a combination of soft analysis and correlation (Vinet & Zhedanov, 2011).

Theoretical Framework and Literature Review

Product development plays a critical role in the growth and success of Islamic banking. By offering innovative and diverse products, Islamic banks can attract a wider customer base and address clients' unique financial needs. Islamic banking is a rapidly expanding sector within the finance industry that operates in accordance with the principles of Islamic law and Sharia. Consequently, all financial transactions are conducted in a manner that adheres to Sharia principles, such as avoiding interest-based transactions and promoting ethical and socially responsible investments (Trifan et al., 2022).

Islamic banks strive to offer innovative products and services that meet the demands of contemporary businesses while upholding the principles of Sharia. The growth and progress of Islamic banking in recent years have been remarkable, as it has integrated itself into the mainstream banking system. Despite the challenges presented by the intricate financial landscape of Islamic banks, it is imperative that they are capable of creating and providing a diverse array of products that align with Sharia principles and cater to the ever-evolving requirements of their customers and modern business environment (Bahoo et al., 2019). This involves offering products, such as Sharia-compliant financing options, Islamic investment products, and specialized services tailored to various customer segments.

Islamic banks operate under a distinctive operational system compared with conventional banks (Rahmat & Hasan, 2022). Rather than levying interest on loans or investments, Islamic banks operate on the principle of profit-

sharing. Product development plays a critical role in ensuring the continuous growth and success of Islamic banking. Islamic banks must consistently innovate and create new products that conform to Sharia principles, while addressing the needs of their customers (Basya, 2019). Service quality and customer loyalty are fundamental elements of a bank's achievement, including Islamic banking. The level of service provided by a bank not only impacts customer satisfaction, but also influences their loyalty to the institution. Factors, such as responsiveness, reliability, assurance, empathy, and tangible aspects, all contribute significantly to shaping a customer's perception of service quality (Al-Wishah et al., 2022).

This encompasses offering a wide range of services, such as Islamic financing options, investment products, and specialized offerings for small- and medium-sized enterprises. Islamic banks must concentrate on developing products that encourage ethical and socially responsible investments, as these principles are fundamental to Islamic finance. In addition, product development in Islamic banking should consider the unique cultural and religious aspects of the target market. For instance, Islamic banks may design products tailored to specific religious holidays or events, as well as products that cater to the requirements of specific demographic groups, such as young professionals or retirees (Bahoo et al., 2019).

Moreover, in Islamic banking, product development should prioritize the promotion of ethical and socially responsible investments. This can be accomplished by offering products that support sustainable and environmentally friendly business practices, as well as those that promote social welfare and community development. Islamic banks must constantly innovate and develop new products that not only comply with Sharia principles, but also meet the evolving needs of their customers and the

contemporary business environment (Sulistyo 2017). To successfully develop innovative and diverse products in Islamic banking, Islamic banks must establish close engagement with their clients and present a convincing ethical argument for their business methodology. Islamic banks must bridge the gap between their clients and their business methodology by demonstrating the advantages of their innovative financial products (Basya 2019). They must showcase that these products are not only compliant with Sharia principles, but are also relevant to evolving business circumstances. This can be achieved by identifying and understanding customers' needs and offering a wide range of products and services that cater to these needs.

Islamic banks must continuously strive to diversify their product offerings to compete with conventional banks and to attract a broader customer base. By providing innovative products that uphold Sharia's values and principles, Islamic banks can differentiate themselves in the market and gain a competitive advantage (Dayi 2020). In summary, product development in Islamic banking is crucial for the success and growth of Islamic banks. By offering a wide range of Sharia-compliant products and services that meet customer needs, Islamic banks can establish themselves as industry leaders and attract loyal customer bases. The product development process in Islamic banking entails a systematic approach for identifying customer needs, designing innovative products, and ensuring adherence to Sharia principles. It begins with market research and a comprehensive understanding of customers' evolving needs and preferences in the Islamic banking industry. By conducting market research, Islamic banks can gather valuable insights into customer preferences, financial goals, and areas of dissatisfaction with existing products (Rassool, 2018).

This information serves as a foundation for ideation and conceptualization, where Islamic banks can brainstorm and generate ideas for new products that address identified customer needs and align themselves with Sharia values. The next step involves product design and development in which Islamic banks translate conceptual ideas into tangible

products. During the design phase, Islamic banks must ensure that the proposed products comply with the Sharia principles, avoiding elements, such as interest (riba), speculation (gambling), and uncertainty (gharar) (Saibil, 2020). The product development team in Islamic banking works closely with Sharia scholars to ensure a strict adherence to these principles. Once the product design is finalized, Islamic banks proceed to the testing and piloting phases. The feasibility, effectiveness, and customer acceptance of the proposed products should be tested.

Feedback is sought from customers and Sharia scholars during this phase to make the necessary adjustments and improvements to the products. After successfully piloting a product, Islamic banks proceed to the product launch and marketing phase. During this stage, Islamic banks develop marketing strategies to promote newly launched products to customers. They highlight the unique features and benefits of the product, emphasizing its compliance with Sharia principles and how it caters to the specific needs of Islamic banking customers. Islamic banks also need to effectively communicate and make convincing moral arguments regarding their business methods (Abdullah et al., 2021). They must demonstrate that their products not only meet the requirements of Sharia compliance, but also align with changing business circumstances and customer needs.

Islamic banks must continuously evaluate and improve their products, based on customer feedback and evolving market trends. This iterative product development process ensures that Islamic banks can offer a wide range of innovative financial products and services that cater to the needs of their customers and differentiate themselves from competition. Islamic banks must proactively identify customer needs and develop innovative products that align with Sharia principles (Alwi et al., 2021). By understanding the changing business landscape and customer

preferences, Islamic banks can position themselves as market leaders and attract and retain customers in an increasingly competitive environment. Furthermore, Islamic banks should not limit themselves to compliance with Sharia when developing their products. They should strive to go beyond Sharia compliance by incorporating additional features and benefits that appeal to customers and provide competitive advantage (Sulistyo, 2017). This may include features, such as competitive interest rates, flexible repayment terms, digital banking solutions, and value-added services that cater to customers' unique needs in Islamic banking.

This could encompass features, such as flexible repayment options, attractive profit rates, convenient online banking services, and personalized customer support. By offering a comprehensive range of products and services, with a focus on promoting the establishment, service, and development of small -and medium-sized enterprises, Islamic banks can foster customer engagement and loyalty in Islamic banking (Basya, 2019). Islamic banks must also ensure that their products are easily accessible and offer fair value compared with conventional banks.

Islamic banks must continually innovate and develop products to meet customers' evolving needs. This enables them to attract new customers and retain existing ones. By prioritizing customer satisfaction and offering innovative Sharia-compliant products and services, Islamic banks can differentiate themselves in the market and build a strong customer base that values their unique business model and trust their ability to meet their financial needs while adhering to Islamic principles.

Increasing competition in the Islamic banking sector has made it necessary for banks to go beyond Sharia compliance in product development. Islamic banks need to think creatively and strategically about devising innovative financial products that not only comply with Sharia principles, but also cater to the changing demands and preferences of their customers. This requires understanding the individual and collective needs of customers, and

offering a diverse range of products and services that effectively address these needs. In addition to compliance with Sharia, Islamic banks should focus on providing competitive interest rates, flexible repayment terms, and convenient digital banking solutions (Isywari et al., 2019).

By offering such value-added services, Islamic banks can attract new customers and retain existing ones by providing a distinct and comprehensive banking experience that aligns with Islamic finance principles. Islamic banks should also actively engage with their clients to establish strong moral arguments for their business methods, among other things. Zakat can serve as a tool for implementing corporate social responsibility (Ali et al., 2023). This can be achieved by emphasizing the ethical and socially responsible aspects of Islamic banking, such as investing in sustainable and socially beneficial projects. Moreover, Islamic banks should actively promote the establishment, servicing, and development of small and medium-sized enterprises, as these businesses play a significant role in economic growth and employment generation (Abdullah et al., 2021).

Findings and Discussion

Sharia Bank Product Performance

The results of the FGDs (Focus Group Discussions) provide insights into the performance of Islamic banking products in Indonesia. The importance-performance analysis (IPA) method was used to compare the achieved level of performance with stakeholders' desired level of interest or satisfaction. In this analysis, variable X represents the level of performance and Y denotes the level of interest. The correlation between performance (X) and interest (Y) is depicted by variable T_{ki} .

The relationships between these three variables can be stated as follows:

$$T_{ki} = \frac{X_i}{Y_i} \times 100 \%$$

where:

Tki : The level of compatibility between performance and interest/satisfaction

Xi : The level of achievement

Yi : The level of interest/satisfaction

The results of the performance analysis of Islamic banking products using the IPA method are summarized in Table 1.

Table 1

Level of compatibility (Tki) between product performance and stakeholders' level of interest/satisfaction

No.	Code	Product	Xi	Mean Xi	Yi	Mean Yi	Tki (%)	Status
1	A1	Current Account	98	327	147	4.9	66.67	G
2	A2	Qurban Savings	74	2.47	144	4.8	51.39	FG
3	A3	Hajj Savings	83	2.77	141	4.7	58.87	FG
4	A4	General Savings	92	3.07	149	4.97	61.74	FG
5	A5	Education Investment Savings	114	3.8	140	4.67	81.43	SB
6	A6	General Deposit	99	3.3	144	4.8	68.75	G
7	A7	Special Deposit	93	3.1	142	4.73	65.49	FG
8	A8	Pension Fund Program	85	2.83	144	4.8	59.03	FG
9	A9	Obligation	54	1.8	136	4.53	39.71	B
10	B1	Capital	76	2.53	148	4.93	51.35	FG
11	B2	Investment	70	2.33	144	4.8	48.61	B
12	B3	Project Financing	95	3.17	137	4.57	69.34	G
13	B4	Procurement of Investment Goods	99	3.3	141	4.7	70.21	G
14	B5	Equipment Financing	94	3.13	148	4.93	63.51	FG
15	B6	Fixed Asset Financing	101	3.37	144	4.8	70.14	G
16	B7	Stock Goods Financing	121	4.03	150	5	80.67	G
17	B8	Procurement of Consumer Goods	94	3.13	129	4.3	72.87	G
18	B9	Property Financing	107	3.57	148	4.93	72.30	G
19	B10	Home/Shop/Office Financing	118	3.93	146	4.87	80.82	G
20	B11	Vehicle Financing	58	1.93	142	4.73	40.85	B
21	B12	Computer Financing	101	3.37	146	4.87	69.18	G
22	B13	Factory and Machinery Financing	46	1.53	141	4.7	32.62	VB
23	B14	Ordering Investment Goods	110	3.67	140	4.67	78.57	G
24	B15	Renovation	106	3.53	139	4.63	76.26	G
25	B16	Bailout Financing	111	3.7	145	4.83	76.55	G
26	B17	Education Financing	107	3.57	139	4.63	76.98	G
27	B18	Benevolent Loans	34	1.13	139	4.63	24.46	VB
28	B19	Pawn	92	3.07	146	4.87	63.01	FG
29	B20	Takeover/Transfer Services	51	1.7	140	4.67	36.43	B

30	B21	Agriculture	53	1.77	148	4.93	35.81	B
31	C1	Our ATM Card	101	3.37	141	4.7	71.63	G
32	C2	Bailout Card	47	1.57	150	5	31.33	VB
33	C3	Hajj/Umrah Card	109	3.63	147	4.9	74.15	G
34	C4	SMS Banking	109	3.63	141	4.7	77.30	G
35	C5	Bill Payment	47	1.57	132	4.4	35.61	B
36	C6	Electronic Payroll	122	4.07	126	4.2	96.83	VG
37	C7	Buying and Selling Foreign Exchange	58	1.93	150	5	38.67	B
38	C8	Bank Guarantee	43	1.43	142	4.73	30.28	VB
39	C9	Domestic L/C	45	1.5	148	4.93	30.41	VB
40	C10	L/C	58	1.93	148	4.93	39.19	B
41	D1	Clearing Deposit	101	3.37	150	5	67.33	G
42	D2	Intercity Clearing	45	1.5	142	4.73	31.69	VB
43	D3	RTGS	98	3.27	148	4.93	66.22	G
44	D4	Collection	94	3.13	140	4.67	67.14	G
45	D5	Transfer	89	2.97	150	5	59.33	FG
46	D6	Foreign Exchange Transfer	58	1.93	150	5	38.67	B
47	D7	Online Tax	44	1.47	142	4.73	30.99	VB
48	D8	Import Tax	46	1.53	143	4.77	32.17	VB
49	D9	Letter Bank Reference	55	1.83	148	4.93	37.16	B
50	D10	Standing Order	47	1.57	150	5	31.33	VB
51	E1	Special Investment	62	2.07	142	4.73	43.66	B
52	E2	Mutual Fund	52	1.73	148	4.93	35.14	B
53	F1	Online Payment	46	1.53	150	5	30.67	VB
54	F2	Waqf	43	1.43	142	4.73	30.28	VB
55	F3	<i>Infaq/Shadaqoh</i>	50	1.67	148	4.93	33.78	VB
56	F4	Online Money Order	47	1.57	150	5	31.33	VB

IPA shows that there are five categories of Islamic banking products: (1) very good (VG) = 3.6%; (2) Good (G) = 33.9%; (3) Fairly Good (FG) = 16.1%; (4) Bad (B) = 21.4%; and (5) Very Bad (VB) = 23.2%. If the B (Bad) and VB (Very Bad) groups are combined into one category; namely, ‘Bad (B),’ then the percentage of Islamic banking products classified as bad is 21.4% + 23.2% = 44.6%.

From this data, we can deduce that nearly 50% of Islamic banking products fall into the bad category. This suggests that these products do not meet the needs or interests of

stakeholders and consequently fail to satisfy customers or stakeholders, including Islamic banking as a business entity. Such poor product performance is evident in the small market share (approximately 5% of the total banking market), higher product costs, lower profits, and increased liquidity risk.

Customer acceptance or rejection of Islamic banking products depends heavily on their uniqueness and distinctiveness. However, since Islamic banking products often emulate or modify conventional

banking products, they are unable to effectively compete, because of several weaknesses, such as small market share, higher costs, lower profits, and increased liquidity risks. Additionally, they lack specific distinguishing factors that distinguish them from similar products offered by conventional banks. This lack of unique design elements poses a significant constraint in the development of Islamic banking products, which should differentiate them based on their compliance with Sharia regulations. Unlike products of conventional banks, Islamic banking products must adhere to the prerequisite of "Sharia compliance," making them less flexible and acceptable in the market.

Islamic banking faces stricter regulations than conventional banking. In addition to banking regulations, it is regulated by the Sharia law. This regulatory framework renders Islamic banking products incompatible with the parameters and structures of general banking, thereby weakening their competitive edge with conventional banking products.

The application of Sharia law leads to the development of unique types, forms, and characteristics of Islamic banking. For instance, products, such as electronic salary payments " do not exhibit significant uniqueness owing to their low complexity. They have minimal conflicts with Sharia law and limited differences in their types and forms. Technological advancements, competition in human resources, and service quality have become the determining factors that distinguish Islamic banking products from those of conventional banks. However, the distinctiveness of Islamic banking products is evident and measurable in terms of financing or investment products, a feature absent in conventional banking products. The unique attributes include (1) the absence of interest/usury or speculation, (2) profit and loss sharing, and (3) the principle of calculating transactions *ex post* (after the incident) as opposed to *ex ante* (before the incident), as seen in conventional banking. Cooper and Kleinschmidt (1990) asserted that "distinctiveness" is a critical factor in determining the success of a product when launched in the market. Once

established, the products must maintain their presence in the market.

The key to product sustainability lies in factors, such as customer-centric orientation, simple concepts, global outlooks, and specifications. This strategy is a decisive element in the triumph of Islamic banking product development. Therefore, the development of Islamic banking products necessitates appropriate strategies and exemplary ideas to compete in the local and global banking markets.

Islamic Bank Product Development Strategy to Achieve a High Level of Competitive Advantage

In-depth interviews were conducted with Sharia product development managers at five (5) Sharia banks in Indonesia: BNI Syariah, BRI Syariah, BCA Syariah, Bukopin Syariah, and Bank Muamalat, resulting in three major themes:

Theme 1: Reasons for the Development of Sharia Products

Considering the present reality of Sharia business, one can assert that the development of Islamic banking products is vital and valuable. Islamic banking products play a significant role in fostering customer loyalty and serve as effective and efficient competitive tools for Islamic banking growth. Without an innovative spirit in product development, Islamic banking struggles to compete in the market. Hence, prioritizing new product model development, particularly in terms of providing distinctive offerings that drive product innovation, is imperative.

Various factors contribute to the substantial development of Islamic banking. First, it pertains to fulfilling customer needs from the perspective of customers themselves. Developers must ensure that new Islamic banking products are marketable and align with customers' demands and preferences while

complying with Islamic principles. Second, from a business perspective, it concerns the superiority of a product. The product under development must yield greater profits, potentially featuring an enhanced operational system compared with conventional bank products. Third, it enhances portfolio quality and product diversity, thus making it a comprehensive service. A well-developed product should have variations that cater to customers' specific needs. However, when creating a product, one must also consider its market potential while adhering to the Sharia principles. For instance, a product may comply with Sharia rules, but may not generate profit from a business standpoint. On the other hand, a product may be profitable in a business sense, but may violate Sharia principles. Thus, both business and Sharia considerations are vital in product development.

Moreover, if development involves a completely new product innovation, it is crucial to introduce the unique features and potential opportunities that this product offers to customers or to the general public. This introduction is necessary, because customers often fail to grasp the distinctiveness of a new product and perceive it as just another variant of the existing one. To assess the viability of new products, management can utilize two parameters: novelty and technological similarity to the current products.

Fourth, there is intense competition between Islamic banks and conventional banks. Therefore, products developed by Islamic banks must completely distinguish themselves from those offered by conventional banks. Islamic banking should incorporate aspects not provided by conventional banks in their products. Additionally, Islamic banking needs to adopt a new model for product development, starting from the offering element, because changes in the offering can lead to innovative products. Consequently, there is a consistently high demand for interest-free banking services and the public has become the primary focus as an alternative to modern financial services. Customers offer various products to meet their needs. The findings of the interviews with banking professionals

support this argument.

<Files\\Bank Muamalat> - § 4 references coded [4.39% Coverage]

Reference 1–1.14% Coverage

The main factors must be customers, whether there is a need or not, and whether it is sizeable.

Reference 2–0.63% Coverage

(See also) in terms of Sharia: whether it complies with it or whether it is possible.

Reference 3–1.24% Coverage

Then) from a business point of view, whether appropriate. In terms of the operational system, whether we are capable.

Reference 4–1.39% Coverage

There must be regulatory and statutory products that are also factors in product development.

<Files\\BCA Syariah> - § 3 references coded [7.97% Coverage]

Reference 1–2.45% Coverage

The main factor is to increase the portfolio by spreading, which aims to increase product diversity and improve portfolio quality, thus providing a one-stop service. Customers ask if they are present.

Reference 2–2.94% Coverage

If we want to make a product, it must at least be absorbed by the market. If a product cannot be absorbed or has no quality, many products cannot be sold. However, making a product takes time and money. This is a waste of time if we do not know the market's potential.

Reference 3–2.58% Coverage

There must be competition, but it is not a significant

factor. When making products, we did not see any competitors. Competitors make something; then, we make something else. We created products that customers need. Thus, we must see the competitors. What for?

<Files\\BNI Syariah> - § 4 references coded [5.80% Coverage]

References 1–2–2.37% Coverage

Suppose that we focus on the conditional factor. After considering the new business, which includes risks and benefits, the Sharia Supervisory Board must ask for it.

References 3–4–3.43% Coverage

At BNI Syariah, paying attention to Sharia and its business aspects must be harmonious. It could be that the product follows Sharia but is not profitable, or that it is beneficial from a business perspective but violates Sharia.

<Files\\BRI Syariah> - § 3 references coded [5.77% Coverage]

Reference 1–1.90% Coverage

From an external perspective, we have a message from The Financial Services Authority that we must develop Sharia banking by more than five percent. Indeed, we required more than five percent. For this purpose, we must produce products that are different from conventional products.

Reference 2–3.42% Coverage

We differ from conventional banks in prioritizing products in the market. Al Ijarah Muntahiya Bi Al-Tamlík (IMBT) and Musyarakah should be encouraged if Murabahah is the same as conventional banks. Everyone already knows what kind of IMBT it is: What is it? What I feel right now is that we have just issued the IMBT. The interest is outstanding because there are things that, if Murabahah is for buying goods, IMBT can be refinanced, just bringing the assets.

Reference 3–0.45% Coverage

Thus, we need to develop products that conventional banks do not offer.

<Files\\Bukopin Syariah> - § 3 references coded [3.98% Coverage]

References 1–2–3.10% Coverage

Most importantly, we recommend products with Sharia as a primary consideration. It is impossible to develop products that do not comply with the Sharia. That is not allowed. Thus, business aspect is the main factor that is not less important. This concerns the market's needs. Meanwhile, market demand strengthens the products.

Reference 3–0.88% Coverage

Competition between Islamic and conventional banks is also in demand for product development.

Theme 2: Strategies for the Development of Sharia Products

The characteristics of Islamic banking encompass being interest-free, serving various purposes beyond commercial ones, and focusing on justice. Studies on Islamic banking generally support the use of profit-sharing as the primary instrument, rather than interest-based methods. Implementing interest-free practices in the modern economy promotes efficient allocation of resources.

Sharia compliance is of utmost importance. Therefore, if a product fails to adhere to Sharia principles, its profitability is insufficient to justify its development. Product creation must strike a balance between compliance with Sharia and business requirements. If a product promises substantial profits, but does not meet the Sharia requirements, it will undergo a review until it fulfills them.

Banking practitioners must navigate the pressure to adhere to Sharia law while also striving to generate

profit. The successful reception of Islamic banking products in local, national, and international markets hinges on striking a balance between these two aspects. Islamic banks that prioritize profit making over adherence to Islamic law and pragmatically develop products will ultimately fail, because they have deviated from their fundamental purpose. This conclusion is supported by the results of the interviews with banking practitioners.

<Files\\BCA Syariah> - § 1 reference coded [4.11% Coverage]

Reference 1–4.11% Coverage

The most crucial aspect is the Sharia. If it is profitable in business but does not comply with Sharia, it is forgotten. Therefore, we do not have to worry about this. It will be like that; it must bounce off at the top (the board of directors). The Sharia Supervisory Board is active at BCA Syariah. Every month, they come here for a meeting since they are under one management.

<Files\\BNI Syariah> - § 1 reference coded [7.93% Coverage]

Reference 1–7.93% Coverage

As explained earlier, we have various aspects of Sharia and business, simultaneously. Regardless of how good the products we offer; they can continue if they comply with Sharia principles. The choice was to review aspects that previously did not meet Sharia and then correct them to meet Sharia propriety. If it cannot be achieved, the product should not be introduced, even though from a business perspective, it brings big profits for the company.

<Files\\BRI Syariah> - § 1 reference coded [3.84% Coverage]

Reference 1–3.84% Coverage

How can we use a product in which the contract can become power? Here, it is at IMBT and Musyarakah. Since Musyarakah, which had already been done first, is IMBT, we

developed IMBT. This is the goal we want to achieve, and IMBT. We have an advantage in this regard. Why? We can adjust, and we can review. These two things must go hand-in-hand. We need to put something first, Sharia compliance, and benefits—ideally, both.

<Files\\Bukopin Syariah> - § 1 reference coded [4.22% Coverage]

Reference 1–4.22% Coverage

Ideally, there should be a survey of market needs and how competitors' products are marketed. Ideally, a market survey should be conducted first, so that the product we launch is a product that is needed by the community. Thus, a Sharia bank is necessary to meet the requirements and pillars, so that there are indeed some products that seem more complicated than conventional bank products.

Theme 3: Islamic Bank Product Development Conceptual Model

The research began with a preliminary study to identify, analyze, and map the problem at hand. This knowledge of the problem, including its direct and indirect causes, serves as the foundation for conducting a literature review. Based on the findings from the problem analysis and literature review, assumptions were made regarding ontological, epistemological, axiological, and methodological aspects. These assumptions were used to formulate problem statements, research questions, and design research tools, such as questionnaires and interview guides. Primary data collected through focus group discussions and in-depth interviews was analyzed and interpreted to develop premises, concepts, propositions, and a thesis.

The problem analysis revealed that the main issue hindering the growth and development of Islamic banks is the lack of a competitive advantage in their products. Several factors, such as value chains and

development models, contribute to the development of Islamic banking products. These factors can be categorized into three layers. The first layer consists of constructs, and the second layer is the platform. Product development requires a specific platform that encompasses elements, such as policies, policy networks, Sharia value chains, and

strategies. The third layer represents the outcomes, which include short- and medium-term results.

The author proposes the following conceptual model for the development of Islamic bank products in Indonesia.

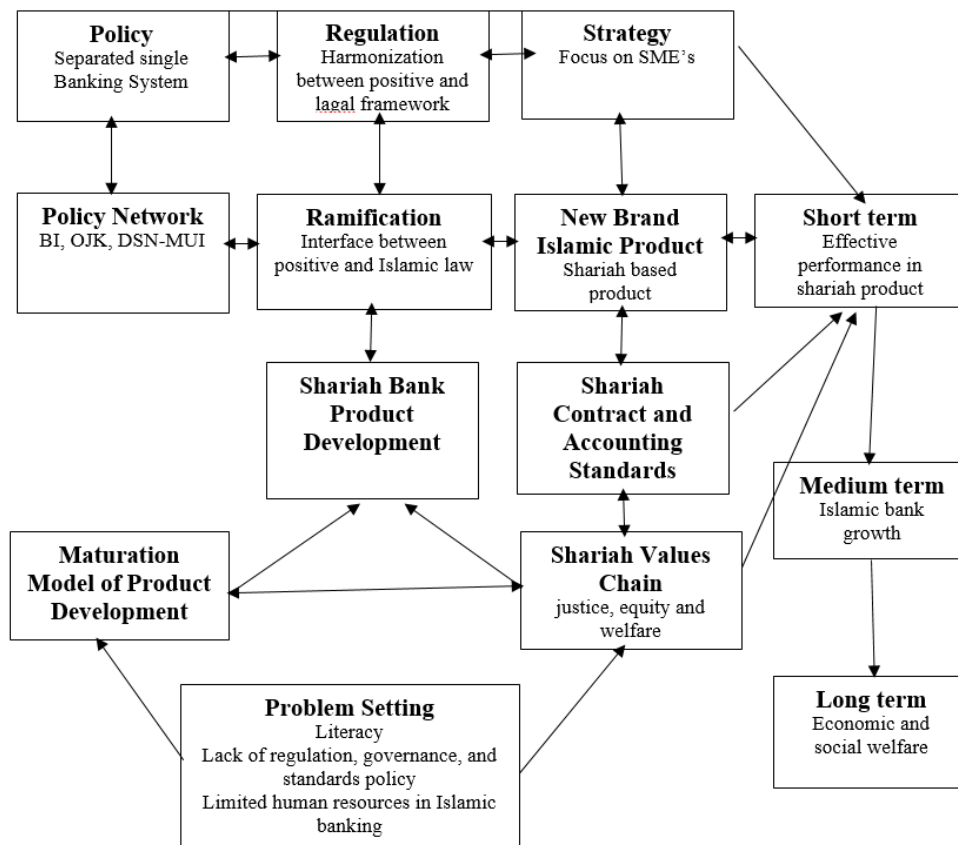


Figure (1)
Conceptual model of Islamic bank product development

Source: Author’s Elaboration. BI: Bank Indonesia. OJK: Financial Service Authority. DSN: National Shariah Board MUI: Indonesia Ulema Council

Figure (1) presents a conceptual model outlining the development of Islamic banking products. This model encompasses three domains: (1) construct domain, (2) platform domain, and (3) results/outcomes domain.

Problem Setting

The development of Islamic banking products arises from the practical challenges experienced at the micro level within the industry. At this level, it is evident that customers, actors, and stakeholders lack a

comprehensive understanding of the essence of Islamic banking. Islamic banking is often narrowly perceived merely as "banks that do not charge interest/usury" in transactions. Unfortunately, the fundamental principles of justice, equity, and prosperity that underpin the Sharia value chain are not fully understood or integrated into product offerings. Consequently, there has been a tendency to replicate conventional bank products, resulting in the failure to embrace the unique characteristics of Islamic bank products.

Furthermore, the regulation and governance of Islamic financial institutions remain limited. This shortage is particularly prominent in technical and non-technical expertise related to banking, finance, and Sharia. In moving forward, it is crucial to delve deeper into the structural and operational dimensions of Islamic banking to grasp its distinct value proposition genuinely. This entails actively embedding principles of justice, equity, and prosperity in the design and implementation of Islamic banking products. Achieving this objective necessitates not only a comprehensive comprehension of Islamic finance, but also a commitment to uphold these principles across all aspects of the banking system.

Moreover, it is imperative to address the prevailing minimal regulations and governance of Islamic financial institutions to ensure the long-term sustainability and credibility of the industry. Developing robust regulatory frameworks specifically tailored to Islamic banking is central to ensuring the adherence of products and services to Sharia-compliant practices, while also maintaining the integrity of the financial system.

Additionally, deficiencies in technical and non-technical expertise within the realms of banking, finance, and Sharia highlight the urgent need for comprehensive education and training programs. Cultivating a competent and well-informed workforce plays a pivotal role in driving the growth and success of Islamic banking, as it necessitates a unique skill set that combines financial proficiency with a profound understanding of Sharia principles.

Sharia Value Chain

The core of the product encompasses two main components: (a) the Sharia value chain, which includes justice, equity, and welfare; and (b) Islamic principles. These elements form the foundation of the "actual product" in Islamic banking and financial services, defining its shape, type, characteristics, quality, and direction. The primary focus of Islamic banking and finance is to serve customers who are affected by the imbalances of the liberal economic system, particularly those in real economy sectors that generally lack capital and face difficulties in accessing traditional banks, such as small and medium enterprises (SMEs) and cooperatives. The Sharia value chain, based on the principles of justice, equity, and welfare, provides a framework for Islamic banking and financial services. This ensures that the products and services offered align with Islamic principles and cater to the needs of marginalized customers, who are often overlooked by the traditional economic system. This approach not only includes conventional banking services, but also extends its reach to small and medium enterprises and cooperatives, addressing their challenges in accessing capital.

Islamic banking and financial services, such as Murabahah and Mudharabah, are shaped by the Sharia value chain, emphasizing fairness and ethical conduct in all financial transactions. This commitment to Islamic principles lays the groundwork for a more inclusive and just financial system that offers opportunities for growth and prosperity to a wider segment of the population.

The product development process in the Islamic banking industry follows Rosemann and De Bruin's (2005) maturation model. This model comprises several key stages, including scope assignment, design, product launch, product testing, product deployment, and maintenance. These stages are crucial for ensuring that the developed products align with Islamic

principles while meeting the needs of consumers. When developing Sharia-compliant products, it is justifiable to incorporate conventional methods while considering the Islamic aspects. The main objective of Sharia product development is to meet consumer needs while upholding its principles and aspects. To develop Islamic banking products, it is crucial to integrate Sharia-compliant aspects into conventional methods. This approach ensures that the products not only meet consumer needs, but also adhere to the strict principles of Sharia. Islamic banks can maintain their commitment to ethical and Sharia-compliant banking practices by considering Islamic aspects in the development process. Incorporating Islamic principles into product development requires a comprehensive understanding of the Sharia law and its implications for financial products. This may involve engaging with Islamic scholars and experts to ensure that developed products fully comply with Sharia principles.

Moreover, conducting thorough market research and analysis is essential to identify the specific needs and preferences of the target market. This enables Islamic banks to develop products that are not only Sharia-compliant, but also appealing to the intended consumer base. As Islamic banking continues to grow globally, the maturation model for product development remains a fundamental framework for Islamic banks to navigate the complexities in developing Sharia-compliant financial products. By prioritizing the integration of Islamic ethics and principles into their product development processes, Islamic banks can effectively serve customer needs while upholding the foundational values of Sharia finance.

Islamic Banking Product Development

The development of Islamic banking products involves the following steps:

1. Implementing the Sharia value chain: This involves incorporating the principles of justice, certainty, benefits, equity, and welfare as the core of each Sharia-compliant product. The value chain and Islamic principles go hand-

in-hand and must be present in every product of a Sharia bank.

2. Carrying out the stages of the product development maturation model: These stages are aligned with the need to develop unique Sharia-compliant products and meet customer demand. In the short term, a functional approach is appropriate, considering that Islamic banking is relatively new in Indonesia and is still in the development stage towards institutional and operational maturity.

Islamic banking products are deeply rooted in the principles of Sharia and the values of justice, certainty, benefits, equity, and welfare. These principles are not merely guidelines, but are at the core of each product. Developing unique Sharia-compliant products is essential to meet customers' diverse needs. This requires a strategic approach that aligns with the maturation model of product development, considering evolving customer demands and the early stage of Islamic banking in Indonesia. As the industry progresses towards institutional and operational maturity, the focus on product development must remain unwavering, ensuring that each product upholds Sharia principles while meeting customers' financial needs.

Standardization of Contracts and Sharia Accounting

The distinctiveness of the value chain and Islamic principles necessitates Islamic banks to adopt a contractual accounting model that differs from the prevailing banking practices and accounting standards. It is imperative to have standardized products, contracts, banking practices, and accounting procedures that adhere to Sharia principles. The Islamic capital market, particularly the Sharia Stock Exchange, must manage Sharia-based stocks or portfolio investments.

Islamic banking operates on the principles of Sharia, which requires a unique approach to the value

chain, contract accounting, and financial transactions. Adhering to Islamic principles entails the development and implementation of standardized products, contracts, banking practices, and accounting procedures that align with Sharia law. Moreover, the Islamic capital market, including the Sharia Stock Exchange, must cater specifically to Sharia-compliant stock or portfolio investments. This distinction requires a comprehensive understanding of Islamic finance and its underlying principles. This also underscores the importance of integrating Islamic ethical considerations into all aspects of banking and financial services.

Innovative Islamic Banking - Brand New Products

The essence of Islamic banking products lies in Islamic value chains and their principles. These two factors are unique innovations that differentiate Islamic bank products from conventional bank products. The success of Islamic bank products as a completely new innovation hinges on the ability of Islamic banking authorities (such as Bank Indonesia, Financial Services Authority, and National Sharia Council) to distribute and implement these two factors as Islamic bank products.

Islamic banking products are deeply rooted in Sharia principles, which govern all aspects of economic and social life. Islamic value chains ensure that financial transactions are conducted in a manner consistent with Islamic ethics and values. This entails the prohibition of interest (known as *riba*) and promotion of risk-sharing and ethical investments.

The innovative elements of Islamic banking products also include the concept of profit- and loss-sharing, as well as the avoidance of investments in businesses deemed *haram* (forbidden) in Islam, such as alcohol, gambling, and pork. These principles establish a financial system based on fairness, transparency, and social responsibility. In addition to these fundamental principles, the success of Islamic banking products relies on stringent adherence to these values by the regulatory authorities of Islamic banking. Bank Indonesia, the Financial Services Authority, and the National Sharia Council play vital roles in guaranteeing the

distribution and implementation of Islamic banking products in accordance with Islamic principles. Their supervision and guidance are crucial for upholding the integrity and authenticity of Islamic banking products in the market.

Regulatory Ramification

The Islamic banking authority's ability to distribute and implement the Sharia value chain as an innovative banking product lies in its proficiency in consolidating Sharia regulations. The consolidation of Sharia regulations creates an interface that merges Sharia law and positive law into a flexible, enforceable, and market-acceptable "Sharia principle" that encompasses the Sharia value chain. Islamic banking has experienced significant advancements over the years, resulting in successful distribution and implementation of the Sharia value chain. The careful consolidation of Sharia regulations has played a pivotal role in this success. By meticulously expanding and specifying the application of Sharia regulations, the Islamic banking authority has created a cohesive interface that seamlessly integrates Sharia and positive laws. This led to the development of a flexible, enforceable, and market-acceptable "Sharia principle" that embodies the Sharia value chain. The intricate nature of these regulations provides evidence of the depth and complexity of Islamic banking principles. It requires a nuanced understanding of both Sharia law and conventional banking practices, as well as the ability to harmoniously combine the two to establish a viable financial system that aligns with Islamic values. The success of this approach positioned Islamic banking as an innovative and increasingly influential force in the global banking industry.

Platform Realm

The platform serves as the foundation for policies implemented by authorities. In this case, the banking

authority formulates work plans or development programs for Islamic banking products. The platform encompasses four dimensions: (i) policy networks; (ii) policy; (iii) regulation; and (iv) strategy. The policy dimension of the platform encompasses specific guidelines and directives that govern Islamic banks' operations and practices. These policies are designed to ensure compliance with Sharia law and ethical standards and to establish a framework for the industry's operations. Regulation within the platform is centered around the oversight and monitoring of Islamic banking activities, with the goal of maintaining stability, transparency, and consumer protection. Regulatory measures were implemented to mitigate risks and preserve the integrity of the Islamic financial system. The platform's strategic dimension involves the formulation of long-term plans and objectives for the growth and advancement of Islamic banking. It encompasses market expansion, product innovation, and competitive positioning within the global financial landscape.

Policy Networks

At the macro level, Islamic banking authorities in Indonesia include Bank Indonesia, the Financial Services Authority, the National Sharia Council, and the Indonesian Ulema Council. Each of these authorities has its own position, roles, and functions, and operates independently of their respective tasks and policies. However, this results in redundancies in policymaking and conflicts. Coordination among these authorities is challenging, weakening the implementation of their roles, duties, and functions. To address this issue, the four authorities should establish a "Policy Network" forum to develop a unified and integrated policy for building Islamic banking and financial products.

'Single Banking System' Policy

The current dual-banking system policy hampers Islamic banks from focusing on their distinctive nature and identity; that is, applying the value chain and principles of Islamic banking. Instead, they tend to replicate the conventional

bank products. It is necessary to transform the 'dual banking system' policy into a "single banking system" policy. Islamic banking authorities should formulate policies that consistently apply to value chains and principles. Consequently, the practice of Sharia units in conventional banks should be discontinued and replaced by pure Islamic banks on a smaller scale. These banks can then cater to the needs of the small and medium enterprise (SME) market and cooperatives.

Islamic banking, with its unique principles and value chain, has the potential to make a significant contribution to the financial inclusion of small and medium enterprises and cooperatives. By transitioning to a "single banking system" policy that focuses on the pure application of Islamic principles, these institutions can serve the market more effectively and with greater integrity.

This transformation involves not only the establishment of pure Islamic banks on a smaller scale, but also redirecting the operations of Sharia units in conventional banks. By demonstrating a consistent and unwavering commitment to Islamic principles, these institutions can create a more inclusive and sustainable financial ecosystem that aligns with the aspirations of their communities. This shift enables Islamic banks to fully leverage their value chains and principles to provide customized financial solutions to SMEs and cooperatives, thus fostering economic growth and prosperity.

Regulation

After formulating a single banking system policy, banking authorities should establish regulations that harmonize Sharia law and positive law in Indonesia. The expected outcome of this harmonization is the implementation of flexible, enforceable, market-accepted regulations known as the "principles of Islamic banking and finance", which incorporate

Sharia value chains. To successfully achieve this harmonization, the banking authority must comprehensively consider the various principles of Islamic banking and finance. This requires a thorough understanding of the Sharia law and its application within the contemporary banking framework. Additionally, conducting extensive market research and engaging with stakeholders are crucial to ensure that regulations are not only enforceable, but also acceptable within the banking industry. Moreover, the incorporation of Sharia value chains is essential for aligning regulations with the ethical principles of Islamic finance. This comprehensive approach contributes to the development of a regulatory framework that is both flexible and grounded in the core values of Islamic banking and finance.

A well-defined and specific strategy is necessary to develop Islamic banking and financial products. This strategy should focus on the development of small and medium-sized enterprises (SMEs), as the majority of businesses in Indonesia operate in this sector despite limited access to financing. To develop Islamic banking and financial products effectively, a tailored and comprehensive strategy is essential. This strategy should encompass not only the establishment of policies and regulations, but also the creation of a supportive ecosystem for Islamic banking. This involves forging partnerships with relevant stakeholders, such as government bodies, financial institutions, and industry experts, to ensure that the unique needs of Islamic finance are adequately addressed.

Islamic banking should prioritize the growth of SMEs. Although SMEs are prevalent in Indonesia, their access to financing remains limited. Therefore, targeted initiatives should be devised to cater specifically to the financing requirements of this sector. This may involve designing Sharia-compliant financial products tailored to suit the needs and capabilities of SMEs, as well as providing business advisory and support services to facilitate their growth and development. Additionally, fostering an environment conducive to entrepreneurship and innovation within the

Islamic banking framework can stimulate the growth of SMEs. Moreover, the strategy for developing Islamic banking and financial products should encompass measures to enhance financial literacy and awareness of Islamic finance principles among the broader population. By educating individuals and businesses on the benefits and mechanisms of Islamic banking, there is an opportunity to cultivate a knowledgeable and receptive market for Islamic financial products.

In essence, a multi-faceted approach that encompasses policy, support for small and medium-sized enterprises (SMEs), and education is crucial in advancing the landscape of Islamic banking in Indonesia. This approach will not only contribute to the expansion of Islamic finance, but will also foster economic growth and financial inclusion within the country.

Results Area

The results were divided into three categories: short-, medium-, and long-term results. In the short term, the proposed model should improve financial and operational performance. In the medium term, it will support the market share and economic growth of Islamic banks, and, in the long run, it will increase the economic and social welfare of a just society. In the short term, improvements in financial and operational performance can be attributed to the immediate impact of changes in strategies and processes. This could include cost-saving measures, improved efficiency, and improved risk management practices. It is important to note that these short-term gains may lay the groundwork for sustained success in the medium and long terms.

In the medium term, the support for market share and economic growth of Islamic banks will likely involve a focused approach to expanding the customer base, increasing the range of Sharia-compliant

financial products, and strengthening relationships in the global financial market. This medium-term focus aligns with the broader goal of establishing Islamic banking as a competitive and sustainable alternative in the financial industry.

In the long term, the emphasis on increasing economic and social welfare points towards a holistic approach that goes beyond financial metrics. It involves creating a framework for ethical and equitable financial practices along with initiatives to promote financial literacy, inclusion, and community development. This long-term vision underscores the deep connection between the success of Islamic banking and the well-being of the society that it serves.

Conclusion

The conceptual model of Islamic bank product development, successfully formulated through this research, is the manifestation of Islamic finance theories and various related theories in specific or unique conditions, particularly in countries with a high Muslim population, like Indonesia, where the level of literacy about Islamic banking and finance is still low. The model is formulated in three stages: (i) generic specifications, (ii) context-based specifications, and (iii) Islamic banks' unique specifications. At the macro level, the Sharia value chain translates into policies, regulations, and strategies for developing Islamic banking products. A "Policy Network" refers to the collaborative process of formulating policies carried out by policymakers, regulators, and stakeholders across multiple sectors. This study proposes the need to rectify certain fundamental errors, such as the dual banking system policy, by transitioning to a single banking system policy that explicitly differentiates Islamic banks and conventional banks. This policy operationalizes the theoretical framework of Islamic banks, which comprises three distinctive characteristics: interest-free, multi-purpose, and justice-oriented, rather than purely commercial.

Building on the proposition that the Shariah value chain should be woven into the core elements of banking products

through distribution and redistribution mechanisms, the maturation model for Islamic banking product development can be employed at macro, middle, and micro levels. This strategy is the primary catalyst for the advancement of Islamic banking products.

Given the unique nature of Islamic banking in Indonesia, generic and specific strategies are necessary. The generic strategy encompasses three key steps: (i) implementing the Sharia value chain and its principles into banking practices, (ii) expanding Islamic banking regulations, and (iii) fostering innovation in new product development. The specific strategy entails eight strategic steps: (i) developing unique products to gain a competitive advantage; (ii) investing in human resources through education and training; (iii) adopting a mixed marketing strategy; (iv) focusing on specific sector segments, such as small and medium enterprises (SMEs) and agriculture; (v) establishing accounting standards for Islamic banking; (vi) applying the maturation model for product development; (vii) implementing risk management and good corporate governance (GCG); and (viii) expanding regulations to support these initiatives.

In terms of practical implications, Islamic banks must establish strong relationships with their customers and provide personalized services that align with Islamic financial principles. This involves implementing innovative ways to address customer needs, such as offering flexible financing options that adhere to Sharia law, and providing educational resources for Islamic banking practices. Additionally, Islamic banks should prioritize transparency and ethical conduct to build trust with their customers and wider communities. By actively communicating their adherence to Sharia compliance and ethical business practices, Islamic banks can position themselves as trustworthy and reputable financial institutions. Further, investing in technology and digital platforms can enhance the accessibility and convenience of

Islamic banking services, catering to the evolving needs of modern customers. By integrating these strategies, Islamic banks can effectively differentiate themselves and attract a broader customer base.

While the findings of this study provide valuable insights, it is important to recognize that the applicability of these findings may vary across different Islamic banks in diverse regions and countries. Factors, such as regulatory frameworks, consumer behavior, economic conditions, and

cultural influences, can significantly impact the operations and performance of Islamic banks. Therefore, further research and analysis are necessary to gain a deeper understanding of how these factors shape Islamic banking dynamics in various contexts. Additionally, exploring case studies and conducting comparative analyses across different regions can offer a more comprehensive perspective on the nuances and implications of Islamic banking practices.

REFERENCES

- Abdul Aris, N.A., Othman, R., Mohd Azli, R., Sahri, M., Abdul Razak, D., & Abdul Rahman, Z. (2013). Islamic banking products: Regulations, issues and challenges. *Journal of Applied Business Research*, 29(4), 1145-1156. <https://doi.org/10.19030/jabr.v29i4.7922>
- Ali, M.A., Shuib, M.S., & Nor, A.M. (2023). Zakat as a corporate social responsibility: How does it affect the financial performance of Islamic banks? *Jordan Journal of Business Administration*, 19(2), 275-293. <https://doi.org/10.35516/jjba.v19i2.1052>
- Al-Wishah, R.H., Al-Weshah, G.A., Abu-Hamour, H.M., & Alzubi, K.N. (2022). Service quality and customer loyalty: Evidence from Jordanian banks. *Jordan Journal of Business Administration*, 18(4), 457-476. <https://doi.org/10.35516/jjba.v18i4.454>
- Ayyub, S., Xuhui, W., Asif, M., & Ayyub, R.M. (2020). Determinants of intention to use Islamic banking: A comparative analysis of users and non-users of Islamic banking: Evidence from Pakistan. *International Journal of Islamic and Middle Eastern Finance and Management*, 13(1), 147-163. <https://doi.org/10.1108/IMEFM-05-2017-0135>
- Calder, R. (2020). Shari'ah-compliant or Shari'ah-based? The changing ethical discourse of Islamic finance. *Arab Law Quarterly*, 35(1-2), 50-73. <https://doi.org/10.1163/15730255-BJA10008>
- Chahin, A., Hoffmeister, J., Paetzold, K., Noori, N., & Cardona, X. V. (2016). A practical approach to structure the product development process using network theory. *Proceedings of International Design Conference, DESIGN, DS 84*, 1235-1242.
- Delmont, S., & Mason, J. (1997). Qualitative researching. *The British Journal of Sociology*, 48(4). <https://doi.org/10.2307/591613>
- Denscombe, M. (2014). *The good research guide for small-scale social research projects*. Open University Press.
- Denzin, N.K., & Lincoln, Y.S. (Eds.). (2017). *The SAGE handbook of qualitative research* (5th edn.). SAGE Publications.
- Faizi, M., & Shuib, S. B. (2021). Shariah product research and trends: A bibliometric analysis from 1997 to 2021. *IOSR Journal of Business and Management*, 23(10), 55-74. <https://doi.org/10.9790/487X-2310055574>
- Farr, B.C. (2008). Designing qualitative research. *Transformation: An International Journal of Holistic Mission Studies*, 25(2-3). <https://doi.org/10.1177/026537880802500310>
- Ilmi, Z. (2023). The application of Fiqh principles in contemporary Sharia transactions in the development of innovative products of Islamic financial institutions in Indonesia. *OECOMICUS Journal of*

- Economics*, 7(2), 142-156. <https://doi.org/10.15642/oje.2023.7.2.142-156>
- Kasri, R.A., & Kassim, S.H. (2009). Empirical determinants of saving in the Islamic banks: Evidence from Indonesia. *Journal of King Abdulaziz University, Islamic Economics*, 22(2), 181-201. <https://doi.org/10.4197/islec.22-2.7>
- Medyawati, H., & Yunanto, M. (2019). Factors influencing Islamic bank financing in Indonesia. *Journal of Economics and Business*, 2(1). <https://doi.org/10.31014/aior.1992.02.01.74>
- Mukhlisin, A., & Suhendri, A. (2018). Strategi pengembangan produk bank syariah di Indonesia [Product development strategy for Islamic banks in Indonesia]. *JES (Jurnal Ekonomi Syariah)*, 3(1), 60-70. <https://doi.org/10.30736/jes.v3i1.51>
- Pangsa pasar keuangan syariah Indonesia capai 10,69 persen [Indonesia's Sharia financial market share reaches 10.69 percent]. (n.d.). BeritaSatu. <https://www.beritasatu.com/ekonomi/1025839/pangsa-pasar-keuangan-syariah-indonesia-capai-1069-persen>
- Purbayati, R., Afgani, K.F., & Rivanda, A.K. (2021). A review: Product pricing of Islamic banking in Indonesia. *European Journal of Business and Management Research*, 6(3), 84-91. <https://doi.org/10.24018/ejbmr.2021.6.3.856>
- Rahman, T., & Santoso, A. (2019). Determinants of Islamic banking performance: An empirical study in Indonesia. *Muqtasid: Jurnal Ekonomi Dan Perbankan Syariah*, 10(2), 139-154. <https://doi.org/10.18326/muqtasid.v10i2.139-154>
- Rama, A. (2017). An exploration of customers' switching behavior in Islamic banking industry. *Journal of Islamic Monetary Economics and Finance*, 2(2), 251-286. <https://doi.org/10.21098/jimf.v2i2.653>
- Robson, C., & McCartan, K. (2016). *Real world research* (4th edn.). John Wiley & Sons.
- Vinet, L., & Zhedanov, A. (2011). A "missing" family of classical orthogonal polynomials. *Journal of Physics A: Mathematical and Theoretical*, 44(8), 6-22. <https://doi.org/10.1088/1751-8113/44/8/085201>
- Yumna, A. (2019). Examining financial needs of banking customers for product development in Islamic banking in Indonesia. *International Journal of Islamic and Middle Eastern Finance and Management*, 12(5), 652-668. <https://doi.org/10.1108/IMEFM-11-2018-0378>
- Zaini, F., Bin Shuib, M. S., & bin Ahmad, M. (2019). The prospect of Sharia banking in Indonesia (opportunities, challenges and solutions). *International Journal of Business Management and Economic Review*, 2(4), 1-14. <https://doi.org/10.35409/ijbmer.2019.2401>
- Zulfikar. (2020). Challenges of Islamic banking in Indonesia in developing products. *The Journal of Management Theory and Practice (JMTP)*, 1(3), 35-42. <https://doi.org/10.37231/jmtp.2020.1.3.55>