



## Islamic Bank As Bank of Ethics

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**ABSTRACT:-** Islamic Banking is undoubtedly in the front line, if we are discussing Islamic Economy nowadays. And Ethics or Akhlak is one basic foundation of Islam beside Faith (Aqidah), and Legal Jurisprudence of Islam (Sharia) that unfortunately has not been given much attention as it should be. Islamic Bank in Indonesia is mainly focusing on sharia, in spite balancing those three foundations. Applicatively, a business with a good ethics standard has to be profitable, legal, honest, right, and considering sustainable development; thus, this paper aims to shed light on the prospect of this issue, for ethics in Islamic Banking may become another distinctive factor compared to its conventional counterpart. This descriptive comparative study will compare cooperative banks which stress their operation in ethics to Islamic Banking in Indonesia. This study reveals that notwithstanding ethics in other countries' cooperative banks has become a new market niche and prospered for it attracted many new customers whom aspiring to involve in a morally right investment; Indonesia Islamic Banks is still focusing on sharia only. This means ethics—if applied—in its capacity as one of the three pillars of Islam is prospective to lead Islamic banking into a full-fledged banking system.

**Keywords:-** Ethics, Islamic Banking, and cooperative banks

### I. INTRODUCTION

This research is based on a gap between Islamic Banking and its ideal ethical form of a bank that is guided by the divine revelation as the source of its reverence. Since it is based on Islam principles, Islamic Banking is supposed to be a bank that conducts every teaching comprehensively which is the only way to be a fully-fledged banking system.

As Muhammad Rasulullah said "I was given the revelation only to fulfill the highest levels of ethics and Morals (Imam Malik, *al-Muwattha'*, No. 1723)", all sharia principles in Islam are a guidance, or a clear pathway to the perfection of ethics. Then could we conclude that Islamic Banking, with all business activities, aims not only to gain profit in transaction but also to increase the ethics and moral value of those involved in it. On the contrary, if we ask to people or even to bank's officer about Islamic Banking they will mostly answer that Islamic Banking is a free-interest bank or profit-loss sharing bank. These facts however may obscure the real value of Islamic Economy or Islamic Banking itself, which is at the frontline of Islamic Economy. The principle of Akhlakul Karimah (Noble character) should be one of the final outcomes that we can get from Islamic Banking.

As a matter of fact, several conventional banks located abroad like Co-operative Bank, Smile Bank, JAK Medlemsbank, and other banks, which have identified themselves as cooperative bank have come forth as a response to the increasing demand for a more ethically business entity specifically banking institution. Their business scope will be discussed later in this research's findings.

This research is solely aimed to provide a vivid example of what Islamic Bank could be, as those cooperative banks may have some lessons to learn. Incorporating Islamic Bank into a bank of ethics would take a massive effort and time, for to change a business behavior will never be an easy task to accomplish. But it has to be done to complete Islamic Banking core of value.

This study will become a contribution to the recent development of Islamic Banking study in Indonesia. It can be done by providing a clear logic that the possible outcomes of this value and principle do not sacrifice the profit motives of the Banks.

### II. THEORY

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As a development of the issue in business ethics, this research is based on Categorical Imperative Theory of Immanuel Kant [1785] (1993) whom stated “Act only according to that maxim whereby you can, at the same time, will that it should become a universal law”. Maxim here can be interpreted as a duty or obligation to be ethical; Therefore, Maxim also can be used for Islamic Bank that applies Islamic Jurisprudence and moral value in its daily operation. A business to be deemed ethical has to be profitable, legal, fair, right, and going to further sustainable development (Tucker [1990] in Brook and Dunn; 2011).

Unfortunately, Islamic Banks have not showed their best effort that there is a link between what is ethical and the real financial transactions according to Islamic tenants (Wilson; 2002). Islamic Bank could play an important role in promoting socially desirable investment through its strong emphasis on the ethical and moral dimensions of doing the business and selecting the activities/ commodities to be financed (Anas and Mounira; 2009). That is why Muhamat, Nizam, and Norfaridah even suggested Islamic Bank to follow Cooperative Bank of Britain, if one aspire to be commendable ethical (2010). Nienhaus had also added that there are no more differences between Islamic Bank and “prudent” conventional banks in the sense of ethics and efficiency, though it might be different in the future due to an increasing concerns of costumers over their compliance activity (2011). And there is a strong feeling of costumers that Islamic Banks have to include social welfare issues (Dusuki; 2007). But some cooperative banks’ officers in Czech had misused their power and aroused suspicion of the stakeholders (Nemcova; 2007). This means a strict control has to be conducted carefully to avoid such problem. Because Islamic Banks are still a carbon copy of their conventional counterparts in regard to their investments (Khan; 2012).

So why ethics is very important to costumers, it is simply because the future of Islamic Banking marketing opportunity are in providing values without compromising ethical issues (Carrigan and De Pelsmacker; 2009). Cooperative can even be called as the third economic system besides capitalism and communism, thus it might be a good alternative compared to those two systems (Karllye; 2006). So it is clear that this ethical system is important and shall be considered seriously to be a full-fledge Islamic Banking.

### III. METHODOLOGY

This research applied descriptive comparative study to investigate the difference between what is termed ideal of ethical conduct in Cooperative Banking outside Indonesia and the current practice of Indonesia Islamic Banks. Three cooperative banks abroad were used as object of this research assuming that nearly all cooperative banks share the same ethical value. They are Co-operative Bank in UK, Charity Bank in UK, and Triodos Bank of Spain. This paper will explore the principle or value of the banks, their ethical practice, asset development, and challenges; so that a clear reasoning can be derived as a justification why conducting ethical issue in Islamic Banks in Indonesia is plausible.

### IV. ANALYSIS AND DISCUSSION

#### a. Co-Operative Bank

The Co-operative Bank in UK is part of the Co-operative group, the world largest consumer co-operative. It originated in Northern England where industrial activities are mostly located so that the bank is viewed as a Bank for working class people. It even welcomes the views, and concerns of its costumers and furthermore encourages its staff to be active in local activity (Wilson; 2002). The bank also adopted a stakeholder approach which can be useful in the future application in Islamic Bank. Its goal is to recognize and establish the agreement and cooperation with all stakeholders to gain mutual benefit for all. The Bank even stated that “led by our principle we work with members to make changes for better”, a terminology in line with Islamic model of loyalty to *Ummah*. Its values are self-help, self-responsibility, democracy, equality, equity, and solidarity. It emphasized its ethical values as openness, honesty, social responsibility, and caring for others.

Marketing itself as an ethical banking, the Bank refuses to invest in companies involved in the arms trade, global climate change, genetic engineering, animal testing and use of sweated labor as stated in its ethical policy. The ethical policy was introduced in 1992. The bank also was recognized as the World’s Most Sustainable Bank by the Financial Times in 2010. Its balance sheet assets £45.7bn with customer lending maintained and asset quality improved. Giving a new lending to consumers of £ 1.1bn and businesses £0.4bn are supported by a strong growth in customer deposits of £1.4bn (4.2%) in the first half of 2010 (Co-operative Bank financial report 2010). Challenges are coming when judging whether investments are ethical or not. It also ever had a technical issue in IT system.

As the Co-operative bank was established in 1872, it has been the most successful bank working cooperatively and on its way to the future.

#### b. Charity Bank of UK

The only regulated bank in the UK that is also a Charity Bank only lends to charities and social enterprises. Its mission is to provide low-cost loans to charities, many of which find it difficult to access finance on terms they can afford. All operating surpluses reinvested in the charity sector and even its chairman and board work voluntarily unpaid.

A different bank to people who want a different world is Charity Bank statement. With a vision to have a thriving third sector that brings about real social change and a society where social return is considered as important as financial return, the bank mission is to finance charities and other 'social profit' organizations that address society's needs, with the support of depositors and investors who want to encourage a more responsible and transparent use of their money. Its values are Honesty, people focused, responsible, innovative, and committed. Set by such foundation, Charity Bank is "different".

In their 2011 annual review, Charity Bank made a survey resulting in 95% said that its loan had played a major part in achieving the organization mission, while 53% said loan had helped them expand. It even has lent £150mn to charities and social enterprises. Yet it still has a 42% average annual growth in deposits, 33% average annual growth in loan portfolio, just lesser than 0.5 loan loss rate. But the problem is its ability to raise fresh capital is limited and has sufficient capital to underwrite planned growth in 2012. This problem is situated in the new rule governed by the European Commission's Capital Requirements Directive which will be implemented in 2013 (2011).

#### **c. Triodos Bank N.V.**

Based in Netherlands with branches in Belgium, Germany, United Kingdom, and Spain, Triodos bank is one of the pioneers in ethical banking. Its mission is to make money work for positive social, environmental and cultural change. The word triodos is derived from the Greek word "tri hodos" or three-way approach that has become its fundamental belief that economic activity should have a positive impact on society, the environment and culture. It valued people, planet, and profit and take those three into account in everything it does. Triodos Bank has four values consisting of sustainability, transparency, excellence, and entrepreneurship. During the first six months of 2012, Triodos Bank's balance sheet increased by 11%, to £4.8bn. Growth during the same period in 2011 was 7%, which continuously means a steady improvement in Bank. It also showed a 31% increase in profit compared to the same period in 2011. It has a target of £60-80mn capital raising by the year end (Triodos Bank Half-year report 2012). All in all it also has a whistle-blower policy that ensures co-workers have access (anonymously or otherwise) to higher management layers, in case of alleged irregularities of a general, operational and financial nature within the company. And it is the only bank in that provides a complete list of every single organization it lend as a means of transparency. Thus, Triodos Bank is on its way to the future.

#### **d. Islamic Bank in Indonesia**

A study by Chong and Liu revealed that only a small portion of Islamic Banks financing that is based on PLS and even its deposits are not interest free, but pegged to conventional deposits (2007). As they keep trying to make a clear stand that they are different, Islamic Banks are still far away from perfection.

Such situation also happened in Indonesia with the largest Muslim citizen the world. While ethical concept is actually more adaptable in Islam since it is one of the core values. Applying this concept in Indonesia can be started just by having a small product line mirroring the cooperative banks product. Islamic Bank in Indonesia has a great opportunity to excel since it has a great Muslim community as a basis and certainly with a clear promotion and information they will welcome the effort, for it is highly desired in Islam.

Abbasi had confirmed that customer preference for Islamic Banking has been based on interest free banking, mutual participation, transparency, service quality and marketing strategy (2012). So it is very important to lead Islamic Bank beyond legal and textual interpretation only by introducing social banking into the market (Asutay; 2007). Haniffa and Hudaib had added that six out of seven Islamic Banks in the gulf have not communicated their operation and the ideal ethical identity (2007). Furthermore, Islamic Bank located in Saudi Arabia did not show a clear ethical practice in Islam relative to their conventional counterparts.

### **V. CONCLUSION**

Based on previous researches, we can draw a critical question, why we have to get involved in Islamic Banking that only applies the rule set by *sharia* but has lost the true message or value behind it.

The call for an extra concern about this issue arises because Islamic Economy is mostly represented by Islamic Banking. and being interest free banking or donating Zakah is really not enough though it may reveal some portion of ethical concept in Islam. The cooperative Banks all over the world have moved forward with their concepts and prospered too. So why do Islamic banking not?

A future research may be addressed to seek a clear method to smoothly incorporate this ethical issue completely in Islamic Banking; for to change the behavior of business entity is hard and a long way to go. But effort needs to be taken.

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