



A Comparative Study on the Development of Islamic Banking in Indonesia and Malaysia from a Regulatory Perspective

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Abstract

Islamic banking has witnessed remarkable expansion on a global scale; however, significant variations persist in its development across different nations. As two of the largest Muslim-majority countries, Indonesia and Malaysia have made continuous strides in advancing their Islamic banking sectors, yet they display notable differences in regulatory structures, market maturity, and institutional strategies. Despite these disparities, the underlying factors driving them and their broader implications for industry growth remain insufficiently examined. This study seeks to bridge this gap through a comprehensive comparative socio-legal analysis of Islamic banking regulations in Indonesia and Malaysia, exploring the extent to which legal frameworks and regulatory policies shape sectoral progress. Indonesia, Malaysia, exploring the extent to which legal frameworks and regulatory policies shape sectoral progress. Utilizing a qualitative, comparative socio-legal methodology, the research examines key legal instruments, including laws, regulations, and guidelines, while also considering socio-economic and institutional dynamics that influence regulatory implementation. The findings reveal that Malaysia's proactive regulatory framework, introduced even before its first Islamic bank commenced operations in 1983, has contributed to legal certainty, bolstered market confidence, and accelerated institutional development. Conversely, Indonesia implemented its Islamic banking regulations 16 years after the establishment of its first Islamic bank, resulting in a slower pace of market penetration, financial product diversification, and public awareness. This difference has contributed to the varying growth rates and development of Islamic banking in the two countries. Study underscores the pivotal role of early regulatory intervention in cultivating a robust and competitive Islamic banking landscape. By drawing comparisons between Indonesia and Malaysia, the research offers valuable insights for policymakers and financial regulators striving to enhance the global Islamic banking sector. Strengthening legal frameworks and promoting public awareness are fundamental strategies for driving industry growth and ensuring its long-term sustainability.

Keywords: Indonesia, Malaysia, Comparative, Banking, Regulatory

Abstrak

Perbankan Islam telah mengalami ekspansi yang luar biasa dalam skala global, namun masih terdapat perbedaan yang signifikan dalam perkembangannya di berbagai negara. Sebagai dua negara mayoritas Muslim terbesar, Indonesia dan Malaysia terus berupaya memajukan sektor perbankan Islam mereka, tetapi masing-masing menunjukkan perbedaan yang mencolok dalam struktur regulasi, kematangan pasar, dan strategi kelembagaan. Meskipun terdapat disparitas ini, faktor-faktor yang mendasarinya serta dampak lebih luas terhadap pertumbuhan

industri masih kurang diteliti. Studi ini bertujuan untuk mengisi kesenjangan tersebut melalui analisis komparatif sosio-legal yang komprehensif terhadap regulasi perbankan Islam di Indonesia dan Malaysia, dengan meneliti sejauh mana kerangka hukum dan kebijakan regulasi memengaruhi perkembangan sektor ini. Dengan menggunakan metodologi sosio-legal komparatif yang bersifat kualitatif, penelitian ini menganalisis instrumen hukum utama, termasuk undang-undang, peraturan, dan pedoman, serta mempertimbangkan dinamika sosial-ekonomi dan kelembagaan yang mempengaruhi implementasi regulasi. Hasil penelitian menunjukkan bahwa pendekatan regulasi proaktif Malaysia, yang telah diperkenalkan bahkan sebelum bank Islam pertamanya mulai beroperasi pada tahun 1983 telah memberikan kepastian hukum, meningkatkan kepercayaan pasar, dan mempercepat perkembangan kelembagaan. Sebaliknya, Indonesia baru menerapkan regulasi perbankan Islam 16 tahun setelah berdirinya bank Islam pertamanya, yang menyebabkan penetrasi pasar yang lebih lambat, diversifikasi produk keuangan yang terbatas, serta tingkat kesadaran masyarakat yang lebih rendah. Perbedaan ini berkontribusi terhadap laju pertumbuhan dan perkembangan perbankan Islam yang berbeda di kedua negara. Studi ini menekankan peran krusial intervensi regulasi dini dalam membangun lingkungan perbankan Islam yang stabil dan kompetitif. Dengan membandingkan pengalaman Indonesia dan Malaysia, penelitian ini memberikan wawasan berharga bagi pembuat kebijakan dan regulator keuangan yang ingin memperkuat sektor perbankan Islam secara global. Penguatan kerangka hukum dan peningkatan kesadaran publik merupakan strategi mendasar untuk mendorong pertumbuhan industri serta menjamin keberlanjutan jangka panjangnya.

Kata Kunci: *Indonesia, Malaysia, Perbandingan Bank, Peraturan*

INTRODUCTION

Indonesia and Malaysia are two countries that draw significant attention regarding the development of their Islamic economies, including the progress of the Islamic banking industry. According to a report by Ernst & Young Global Limited, there are nine countries with the largest market share of Islamic banking assets globally. These nine countries collectively account for 93% of the total asset capitalization, with Indonesia and Malaysia being among them. Both countries are located in Southeast Asia, while the remaining countries are predominantly from the Middle East (Almutairi *et al.*, 2024).

The development of Islamic banking in Southeast Asia (ASEAN) varies across countries, with Malaysia being the fastest-growing nation in this sector. Indonesia is also actively advancing its Islamic banking industry, followed by Brunei Darussalam. Meanwhile, Singapore, the Philippines, and Thailand, as countries with Muslim minority populations, are gradually exploring Islamic banking. Indonesia and Malaysia have become global benchmarks and models for Islamic finance, supported by

comprehensive infrastructure and strong governmental backing. Through its intermediation function, banking plays a crucial role in revitalizing the real sector by channeling funds to businesses, either through credit disbursement in conventional banking or financing contracts in Islamic banking.

Development, Islamic banking in Malaysia has consistently outperformed Islamic banking in Indonesia. According to the Islamic Finance Development Indicator (IFDI) report published by the Islamic Corporation for the Development of the Private Sector (ICD), Malaysia's Islamic banking indicators rank higher than Indonesia's. However, when analyzed year-by-year, the growth rate of Islamic banking in Indonesia appears to be higher than that of Malaysia. The development of Islamic banking in Malaysia has consistently outpaced that of Indonesia. According to the Islamic Finance Development Indicator (IFDI) report published by the Islamic Corporation for the Development of the Private Sector (ICD), Malaysia's Islamic banking indicators rank higher than Indonesia's. However, when examined on a year-by-year basis, the growth rate of Islamic banking in Indonesia appears to surpass that of Malaysia. This disparity should not be solely attributed to differences in policies and regulations governing Islamic banking. Other factors, such as market dynamics, financial infrastructure, consumer awareness, and institutional readiness, may also play a role. To provide a more comprehensive analysis, this study adopts a comparative approach to examine how regulatory frameworks in each country influence the observed differences in growth and development within their Islamic banking sectors (Hakam Naja, 2023).

Based on literature review, the author found research same on this research but the author found difference. Such as study from Lora Irma Yunda by tittle *Compare of the Islamic Banking System at Indonesia and Malaysia* Proceeding of International Conference on Education, Society and Humanity. The author and that journal found similarity such as Both have the same research object, namely Indonesia and Malaysia. Conclusion that research is Indonesian and Malaysian Islamic banking institutional systems have many similarities, for example in terms of the central bank. The central banks of Indonesia and Malaysia, namely Bank Indonesia and Bank Negara Malaysia, are still the highest authorities in the field of supervision, guidance, and policymaking in financial institutions or institutions in the two countries in question, especially in the Islamic banking system. Shariah governance for Shariah financial institutions in Indonesia and Malaysia is stated in laws and technical regulations. The difference is that Malaysia has developed a more comprehensive framework by using a special term, 'shariah governance'. While Indonesia still uses the perspective of corporate governance for sharia financial institutions (Yunda *et al.*, 2024). The author

research legal system comprehensively and holistic that Indonesia and Malaysia.

Based from research other research. The author found research by the journal Qistire Faculty of law Semarang State University. Conclusion that research is the disparity in the development of the Islamic banking industry between Malaysia and Indonesia arises from the distinct legal approaches adopted by each country in addressing the emergence of Islamic banking. In Malaysia, regulations governing Islamic banking were firmly established even before the founding of its first Islamic bank, Bank Islam Malaysia Berhad (BIMB). In contrast, Indonesia introduced comprehensive Islamic banking regulations only 16 years after the establishment of its first Islamic bank, Bank Muamalat Indonesia (BMI). Notably, key regulatory measures, such as the elimination of double taxation and mechanisms for resolving sharia business disputes, were implemented in Indonesia only from 2010 onward, whereas Malaysia had instituted such provisions before BIMB came into existence. This regulatory delay in Indonesia has markedly affected the growth and development trajectory of its Islamic banking industry, with Malaysia achieving faster and more consistent progress by comparison (Mukti, 2020). The journal identified similarities, including having the same research focus, namely Indonesia and Malaysia but the difference in this research is a legal system that is comprehensive and holistic has a significant impact on banking in both Indonesia and Malaysia.

The development of Islamic banking in Indonesia has been supported by a legal framework encompassing national legal provisions, Islamic law, and operational regulatory support. Indonesia's first Islamic bank, Bank Muamalat, was established in 1992 (Dahlan *et al.*, 2023). Currently, the country has 14 fully operational Islamic commercial banks, 20 Islamic business units, and 162 fully operational Islamic rural banks. In contrast, Malaysia has 5 fully operational international Islamic banks and 17 fully operational domestic Islamic banks (Adam dan Supriani, 2022).

Indonesia and Malaysia are faced with the demand for the development of the Islamic financial industry, including the banking sector, which is affirmative and has a corporate governance system that can guarantee the realization of such institutional objectives. The governance strategy in the case of Islamic financial institutions is different from that of conventional banking governance. This difference stems from the requirement for Islamic financial institutions to ensure conformity of all products, instruments, operations, practices, and management to Sharia principles. As a result, Islamic banking calls for a governance structure that guarantees total adherence to Sharia rules.

Southeast Asia consists of three major countries, which include Muslims, two of which are Indonesia and Malaysia, whose Islamic banking

concepts are among the most successful on this continent. Thus, it also implies an analysis of Islamic banking activities within both countries that are regulated by the principles of sharia compliance. As a result, this paper seeks to assess the evolution and the present status of Islamic banking in Indonesia and Malaysia as significant players in the Southeast Asian sub-region. This study goes further by providing a comprehensive and holistic analysis of the legal system's impact on the growth and governance of Islamic banking in both countries. Unlike previous research, which mainly highlights policy differences, this study examines the broader implications of legal frameworks, including corporate governance and Shariah compliance, in shaping the Islamic banking sector. By adopting this approach, the research offers deeper insights into how regulatory strategies influence the sustainability and competitiveness of Islamic banking in Indonesia and Malaysia.

LITERACY STUDIES

Islamic banking development journeys in Indonesia and Malaysia reflected how these two countries have their own incredible way to build values-based economic systems, which refers to their solidarity to boost their communities. As the most populated Muslim country globally, the prospects for Islamic banking in Indonesia appear bright, but the growth has been a bit slow. At the same time, Malaysia has established itself as a leader in the region, being the first Islamic banking since the 1980s, which is a motivation to others as well (Sup dan Hartanto, 2020).

In Indonesia, Islamic banking's establishment received more significant attention following the promulgation of Law No. 10 of 1998, which allowed this type of banking to work side by side with the conventional banking system within a dual banking system. The subsequent promulgation of Law No. 21 of 2008 on Islamic Banking in the year 2008 provided, among others, a fuller legal framework for Islamic banking to realize its more rapid growth in the future (Firmansyah dan Rusydi, 2024). In Malaysia, strong support at the governmental level, particularly through Bank Negara Malaysia, has enabled Islamic banking to emerge as an important part of the overall national financial architecture. Malaysian government's active promotion of policies and incentives to promote the sector. Which includes the establishment of the Islamic Banking Act in 1983 and the launch of the Financial Sector Masterplan in 2001, expanding the regulatory regime for Islamic banking (Afifah Rohmawati *et al.*, 2023).

The legal frameworks for Islamic banking in Indonesia and Malaysia are based on sharia principles, which prohibit elements such as *riba* (usury), *maysir* (gambling), and *gharar* (excessive uncertainty). Still, each country has

its own unique method of regulating, supervising, and expanding Islamic financial instruments. The National Sharia Board of the Indonesian Ulama Council (DSN-MUI) has a leading role in providing fatwa and sharia guidelines on Islamic banking products and services. Bank Indonesia (BI) and Financial Services Authority (OJK) conduct supervision and technical regulations, including compliance supervision on Sharia. Regulations in Indonesia have often been slow to respond to new products in the Islamic finance industry, even though they are generally flexible.

Malaysia's supervision of Islamic banking is structured and integrated. Bank Negara Malaysia (BNM) not only supervises but also actively promotes innovation and the development of sharia-compliant products. Malaysia has established the Shariah Advisory Council (SAC), which serves as the highest authority in issuing guidelines and rulings on Shariah compliance across the entire financial industry (Abdullah, 2017). The Islamic banking sector in Malaysia has the ability to innovate because of its more flexible regulations. In Malaysia, sharia-compliant financial products like sukuk and takaful have experienced a rapid growth, taking a significant share of the market. Although Indonesia has seen more innovation, the development of Sharia-compliant financial products can be challenging due to stricter regulations that are sometimes less responsive to the dynamics of the global market (Kevira Eris Andini *et al.*, 2024).

RESEARCH METHODS

Research methods on this study, adopts a socio-legal research methodology to comprehensively examine the regulatory landscape of Islamic banking in Indonesia and Malaysia. Utilizing a qualitative and comparative approach, the research critically analyses the legal frameworks, policies, and regulatory implementations that govern Islamic banking in both countries. The study is grounded in primary legal sources, including laws, regulations, and official guidelines, which serve as the foundation for the sector's development. In Indonesia, key regulatory instruments encompass Law No. 21 of 2008 on Islamic Banking, directives issued by Bank Indonesia (BI), and fatwas from the National Sharia Board of the Indonesian Ulema Council (DSN-MUI), all of which establish the legal infrastructure for Islamic banking operations. Conversely, in Malaysia, the regulatory framework is primarily shaped by the Islamic Financial Services Act (IFSA) 2013 and the Shariah Advisory Council (SAC) under Bank Negara Malaysia (BNM), ensuring a structured and coherent legal foundation for the industry. By systematically comparing these regulatory approaches, this study provides a holistic understanding of how legal structures influence the growth, stability, and operational dynamics of Islamic banking in both nations. To achieve a thorough analysis, this study

will evaluate primary and secondary data within a legal framework, applying relevant legal theories such as legal politics, which examines the influence of law on regulatory policymaking, and legal effectiveness, which assesses the degree to which these regulations are implemented and complied with in the Islamic banking sector. This approach offers a comprehensive and holistic perspective on the impact of regulatory frameworks on the growth, stability, and operational effectiveness of Islamic banking in Indonesia and Malaysia.

DISCUSSION

Islamic Banking Regulations in Indonesia and Malaysia

After 16 years of Islamic banking operations in Indonesia, comprehensive regulations specifically addressing Islamic banking were only introduced in 2008. Before that, there were no dedicated legal frameworks for the sector, which might seem surprising but reflects the historical reality. Initially, only specific operational aspects of Islamic banking were overseen by Bank Indonesia (BI). When Bank Muamalat Indonesia (BMI) was established, its legal foundation was based on Law No. 7 (1992) on Banking, an amendment to Law No. 14 (1967) on Banking Principles. The sole provision enabling Islamic banking operations at the time was Article 1(12), which recognized "profit-sharing" as part of banking activities. Using this provision, BMI was able to operate. Concurrently, matters related to sharia supervision and banking products were regulated through BI Governor's Decrees and BI Regulations.

During the 1998 financial crisis, substantial revisions were made to banking laws and institutional practices. Law No. 7 (1992) on Banking was amended to become Law No. 10 (1998) on Banking, which permitted conventional banks to offer Islamic financial services. Consequently, the foundational legal framework for Islamic banking in Indonesia is rooted in Law No. 7 (1992), which was subsequently amended by Law No. 10 (1998). The practical application of these laws is detailed in BI regulations, encompassing a broad range of aspects related to Islamic banking products and operations (Tektona, 2023).

Islamic banking in Indonesia has established an adequate legal framework regulating various aspects of its operations. However, some crucial regulations were delayed in responding to the rapid growth of the Islamic banking industry, such as the issue of double taxation. Double taxation, which had hindered the growth of Islamic banking, was only abolished in 2009 and effectively implemented on April 1, 2010, through an amendment to Law No. 42 (2009) on Value-Added Tax. Additionally, dispute resolution mechanisms remained inadequately addressed until 2008, when the Islamic Banking Law was enacted. Article 55 of the law specifies that any disputes arising from Islamic banking transactions or

businesses must be resolved in the Sharia Court. However, under a specific clause, if both parties agree, the dispute can be referred to another court, provided prior approval is obtained from the judges (Majid, 2014).

In Malaysia, Islamic banking regulations are primarily governed by the Islamic Financial Services Act (IFSA) 2013, which replaced the Islamic Banking Act (IBA) 1983 and the Takaful Act 1984 (Khan dan Tabet, 2024). Other relevant laws include the Financial Services Act (FSA) 2013, the Central Bank of Malaysia Act 2009, and the Development Financial Institutions Act 2002, which collectively regulate various aspects of Islamic finance, banking, and financial stability (Abdullah, 2017). On the other hand, BAFIA 1989 was introduced to oversee traditional banks, including those conducting both Sharia-compliant and interest-based banking activities. This legislation was formed by merging the Insurance Act of 1963 and the Finance Companies Act of 1969. With the implementation of BAFIA in 1989, financial institutions gained a legal framework to engage in Islamic banking operations within certain limitations. For conventional banks, the only provision governing Sharia-compliant banking activities is found in Section 124(1) of the act (Mahdi, 2021).

A multitude of rules and regulations govern Islamic banking to ensure its proper functioning. The Companies Act of 1965 governs the establishment of banks in Malaysia involved in Islamic banking activities, regardless of whether these activities are conducted alongside conventional interest-based operations. All Islamic banking operations must strictly adhere to the regulations of BNM, as it is the supreme authority. BNM not only has the power to recommend that a license be granted by the Minister of Finance for a financial institution to conduct banking business but also has the authority to oversee all banks and financial institutions. Similarly, in matters of Islamic business dispute resolution and product innovation, Islamic banks must comply with the Shariah Advisory Council (SAC) – BNM (Majid 2014).

The Islamic Financial Services Act (IFSA) 2013 serves as Malaysia's key regulatory framework for Islamic banks, takaful providers, and other Sharia-compliant financial institutions. It replaced the Islamic Banking Act (IBA) 1983 and the Takaful Act 1984, unifying regulations to uphold Sharia compliance, financial stability, and consumer protection. One of the notable aspects of IFSA 2013 is its emphasis on Sharia governance, mandating Islamic financial institutions to establish a Sharia Committee and adhere to rulings issued by Bank Negara Malaysia's (BNM) Sharia Advisory Council. The act also enhances consumer protection by enforcing clear disclosure of risks and returns, while differentiating between Islamic deposits (guaranteed) and investment accounts (profit-sharing) under contracts such as *Mudarabah* and *Wakalah*. Moreover, IFSA 2013 expands BNM's regulatory authority, enabling it to monitor, oversee, and intervene in situations of

financial instability or Sharia non-compliance. This legislation has strengthened investor confidence, fostered innovation in Islamic financial products, and aligned Malaysia's Islamic finance sector with international standards. In essence, IFSA 2013 is vital in reinforcing Malaysia's status as a global hub for Islamic finance, ensuring a transparent, resilient, and Sharia-compliant financial ecosystem (Laldin dan Furqani, 2018).

Similarities and Differences in Islamic Banking Between Indonesia and Malaysia

Similarity

Both countries adopt Islamic principles as the foundation for banking operations. Islamic banks in Indonesia and Malaysia operate based on key Islamic principles, such as the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling). In this regard, Islamic banking in both nations offers products and services such as *murabaha* (buy-and-sell financing), *mudharabah* (profit-sharing), *musyarakah* (partnership), *ijarah* (leasing), and *wakalah* (agency), all of which comply with Islamic principles (Khalidin *et al.*, 2023).

Islamic banks in both countries have Shariah Supervisory Boards (SSBs) to ensure their operations comply with Shariah law (Mukhibad *et al.*, 2023). In Indonesia, the Shariah Supervisory Board is overseen by the National Shariah Board of the Indonesian Ulema Council (DSN-MUI), while in Malaysia, the Shariah Advisory Council (SAC) is established by Bank Negara Malaysia. Both institutions serve similar roles in overseeing Islamic financial products and ensuring that banking activities align with Islamic principles.

Types of Products and Services Islamic banks in Indonesia and Malaysia offer similar products and services, such as Islamic savings accounts, Islamic financing, Islamic deposits, and other Sharia-compliant investment products. Additionally, Islamic banking in both countries provides various services, including Sharia-compliant digital banking and microfinance, all by Islamic principles.

Government involvement in the supervision and development of the Islamic banking industry is evident in both countries, with active participation in fostering and overseeing the sector. In Indonesia, this is carried out through the Financial Services Authority (OJK) and Bank Indonesia (BI), while in Malaysia, the role is performed by Bank Negara Malaysia (BNM). The governments of both countries issue policies and regulations to support the growth of Islamic banking, providing incentives that include financial support and regulatory frameworks that facilitate the expansion of Islamic banks.

Islamic banks in Indonesia and Malaysia place significant emphasis on financing Micro, Small, and Medium Enterprises (MSMEs) as part of their inclusive finance strategies. MSME financing is promoted as a key aspect of Islamic banking, aligning with the Sharia principles that prioritize social welfare. Both countries view Islamic banks as integral parts of their banking systems, supporting productive economic sectors and fostering equitable prosperity within society.

Opportunities to Become a Global Islamic Finance Hub

Both Indonesia and Malaysia are striving to establish themselves as global hubs for Islamic finance. Malaysia has already solidified its position on the international stage, while Indonesia, with the world's largest Muslim population, is leveraging this potential. Both nations actively participate in international forums such as the Islamic Financial Services Board (IFSB) and host global conferences on Islamic finance.

Both Indonesia and Malaysia focus on the development of human resources in the Islamic banking sector through the establishment of specialized education and research centers for Islamic finance. These countries have set up higher education institutions, including universities and training organizations, offering Islamic finance programs ranging from diploma to doctoral levels, aimed at producing competent professionals well-versed in Sharia principles. From a technological standpoint, both nations have seen Islamic banks adopting digital technology in their services, such as Sharia-compliant digital banking, mobile applications, and other technology-driven financial services, to meet the increasingly dynamic needs of their customers. This digitalization is designed to reach a broader customer base, expedite transactions, and reduce operational costs, in line with the rapid growth of the digital economy in both countries.

Islamic banks in both Indonesia and Malaysia prioritize social welfare and ethical financial principles as their core operational values. These principles promote products focused on sustainability, social well-being, and community development. Zakat, *infaq*, *sadaqah*, and waqf (ZISWAF) services are also managed by several Islamic banks in both countries, reflecting a shared commitment to social responsibility. These commonalities highlight that Islamic banking in Indonesia and Malaysia share similar visions and missions, particularly in their dedication to Sharia principles and efforts to enhance community welfare (Yasin, 2010).

Difference

Islamic Banking in Indonesia is regulated by Otoritas Jasa Keuangan or OJK, a governmental agency, under Law No. 21 of 2008 on Islamic Banking. Also, Bank Indonesia (BI) is responsible for regulating financial aspects. The National Sharia Council of the Indonesian Ulema Council

(DSN-MUI) is responsible for issuing fatwas on sharia-compliant products, which are not subject to the jurisdiction of OJK and are not directly under the banking regulator. Malaysia has its own specific legislation for Islamic banking, known as the Islamic Financial Services Act (IFSA), which has been in effect since 2013. The national financial and legal framework is fully integrated with Sharia principles in this law. Under Bank Negara Malaysia (BNM), the Shariah Advisory Council (SAC) is responsible for monitoring and issuing fatwas for all Islamic financial institutions. SAC ensures that sharia-related decisions are directly included in national financial policies as part of its role as the regulator.

The development and market share of Islamic banking in Indonesia reveal that, despite the large Muslim population, the market share of Islamic banking remains relatively small, around 6-7% of the total banking sector. The establishment of Bank Syariah Indonesia (BSI) in 2021, resulting from the merger of three state-owned Islamic banks, is a significant step toward expanding market share. This industry, however still lags behind the conventional banking regarding inclusiveness and market penetration. Malaysia, on the other hand, has emerged as the global hub for Islamic finance as the share of Islamic banking exceeds 30% of the total banking industry. The success of Malaysia in Islamic banking and its appeal at the global level are attributed to government support and effective legal infrastructure and the issuance of new innovative Islamic financial products. The key difference is that Malaysia has a much larger and more developed Islamic banking market share, while Indonesia's is still growing.

In Indonesia, the acceptance of sharia-compliant products by non-Muslims is relatively low, with Muslim customers showing more interest in these products. Sharia banking outreach efforts are still primarily focused on Muslim communities. In contrast, in Malaysia, sharia banking products are widely accepted across various segments of society, including non-Muslims, as they are seen as competitive, safe, and offering unique benefits. The Malaysian government actively promotes the inclusivity of sharia-compliant products among non-Muslim populations. The key difference lies in the broader acceptance of sharia banking products in Malaysia among non-Muslims, whereas in Indonesia, these products remain predominantly favored by the Muslim population.

Infrastructure and Government Support in Indonesia. Government support for Islamic banking in Indonesia has increased in recent years, but it remains less intensive compared to Malaysia. The establishment of BSI (Bank Syariah Indonesia) is one of the significant forms of government support. Meanwhile, the Malaysian government has provided full and consistent support since the early 1980s, including various tax incentives, sharia-friendly policies, and the provision of infrastructure. Malaysia boasts the Malaysia International Islamic Financial Centre (MIFC) as a platform to

strengthen its position as a global hub for Islamic finance. The key difference is that the Malaysian government's support for the Islamic banking industry is stronger, more consistent, and comprehensive, including support for infrastructure and regulations.

Islamic Financial Products and Innovations in Indonesia: In Indonesia, the products of Islamic banking are still dominated by basic contracts of *murabahah*, *ijarah*, and *musyarakah*. While some early new product innovations have occurred, these are still at early stages of development. On the other hand, Malaysia is noted for more advanced innovations that include Sukuk (Islamic bonds), Islamic insurance, and attractive Islamic investment products that draw international investors. Malaysia has been at the forefront of Islamic digital banking, continuously introducing new products to address global marketplaces. The key difference that exists is in the range and creativity of the products offered; in Indonesia, product innovation is still at an early stage, where basic offerings hold sway in the market.

The system of Islamic finance education and training in Indonesia has begun to develop, with several universities offering programs in Islamic economics and banking. However, it remains limited compared to Malaysia, where the education and training in Islamic finance have been established for a longer period. Malaysia boasts more educational institutions and specialized training programs in this field. For instance, Malaysia has the International Centre for Education in Islamic Finance (INCEIF), which was specifically founded for international-level Islamic finance education. The key difference lies in Malaysia's well-established educational and training centers for Islamic finance, with a focus on developing human resources at a global level.

Indonesia has significant potential in the international Islamic finance sector but has only started to engage more actively in recent years. International cooperation in Islamic finance is growing, though it remains limited. Meanwhile, Malaysia has long been involved in various international forums and institutions, such as the Islamic Financial Services Board (IFSB), and has established itself as a key player in the international sukuk market. The difference lies in Malaysia's broader influence and participation on the global stage compared to Indonesia. As a result, Malaysia holds a more prominent role and influence in global Islamic banking, while Indonesia is still in the developmental phase despite its vast potential.

CONCLUSION

The level of development of the Islamic banking industry in Malaysia and Indonesia shows a significant difference, caused by the distinct legal

approaches each country adopted in responding to the emergence of Islamic banking. regulations related to the elimination of double taxation and the resolution of sharia business disputes were only enacted in 2010, whereas Malaysia had already put these measures in place before BIMB was established. Difference Indonesia, the Malaysian government had established Islamic banking regulations before the first Islamic bank was founded in 1983. In contrast, Indonesia only implemented such regulations 16 years after the operation of its first Islamic bank. This difference has contributed to the varying growth rates and development of Islamic banking in the two countries. In Malaysia, Islamic banking has progressed more rapidly and steadily compared to Indonesia. The sluggish expansion of Islamic banking in Indonesia is largely due to the delayed introduction of a comprehensive regulatory framework, which was only enacted 16 years after the establishment of the country's first Islamic bank, Bank Muamalat Indonesia (BMI). In contrast, Malaysia had already put in place a well-structured legal framework before the launch of Bank Islam Malaysia Berhad (BIMB) in 1983, ensuring legal certainty and fostering steady industry growth. Furthermore, Malaysia addressed crucial regulatory matters, such as double taxation and dispute resolution, much earlier than Indonesia, further strengthening its Islamic banking sector. These differences underscore the pivotal role of proactive regulatory policies in shaping the advancement and competitiveness of Islamic banking. Looking ahead, Indonesia must continuously refine its regulatory framework to enhance legal clarity and support the industry's growth. Future researchers should examine the broader economic and institutional dynamics influencing Islamic banking, while policymakers and stakeholders must focus on legal reforms, financial incentives, and public awareness efforts to drive the sector's expansion.

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