Islamic Organization and the Perception of \textit{riba} (Usury) and Conventional Banks Among Muslims: Evidence From Indonesia

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Abstract
At least seven verses in the Qur’an and many hadiths highlight that \textit{riba} (usury) is forbidden in Islam and should be avoided by Muslims. However, when we bring this issue into the modern context, especially its application in economics and banking, Muslims might say differently. Some Muslims with contemporary arguments could say that banks’ interest is not similar to \textit{riba} because \textit{riba} is only in the context of excessive lending and taking advantage of others’ needy. We survey 626 people in Indonesia and find that 93% of Muslims said that \textit{riba} is indeed prohibited in Islam, but some of them disagree if \textit{riba} is similar to the conventional bank’s lending-borrowing mechanisms. In this article, we also empirically find that their involvement in the Islamic organization could strengthen their perception that \textit{riba} is not similar to the bank’s interest rate.

Keywords
\textit{Riba}, usury, Islamic organization, Muhammadiyah, Nahdlatul Ulama (NU), Indonesia

Introduction
Islamic banks have grown rapidly in the last decades and some Islamic scholars associate this development with the Islamic resurgence because the bank uses the Islamic principle (\textit{Shariah}) in their operations. IFSB (2020) reports that Islamic financial institutions (including Islamic banks) recorded an 11.4% growth rate. It is estimated that the total assets of all Islamic institutions in 2019 are more than USD 2.44 trillion. The major part of Islamic financial institutions’ total assets is contributed from the Islamic banks, with have always been more than 70% from year to year (IFSB, 2020).

In Indonesia, Islamic banks also possess a significant development. Islamic financial institutions in Indonesia consistently recorded two-digit growth of total assets at 20% and lending at 9.42% in 2020 despite being hit by COVID-19 (IDX Channel, 2021). As a predominantly Muslim population, Indonesia has 14 full-fledged Islamic banks (Otoritas Jasa Keuangan, 2021b). This number is the third highest in the world after Bahrain that has 19 Islamic banks (Central Bank of Bahrain, 2020) and Malaysia that has 16 Islamic banks (Bank Negara Malaysia, 2021). If we combine the number with the Islamic windows, Indonesia’s Islamic banks could be the first regarding the number of banks because Indonesia has 20 Islamic windows (Otoritas Jasa Keuangan, 2021b). A total of 34 Islamic banks have excluded the 167 rural Islamic banks dispersed in 21 provinces of Indonesia (Otoritas Jasa Keuangan, 2021b) and those numbers are also excluded more than 4,000 \textit{Baitul Maal-wat-Tamwil} or Islamic cooperative institutions (Islamic micro-financial institutions) that currently mushroom in Indonesia (IDX Channel, 2021).

However, despite the growing number of Islamic banks and those Islamic-related financial institutions in Indonesia, the contribution of Islamic banks’ assets both at the global and national levels remains minuscule. At the global level, Indonesia’s Islamic banking assets constitute only 2% and this is far from Bahrain and Malaysia that have reached 15% and 13%, respectively (IFSB, 2020). At the national level, according to the Indonesia Islamic Development Report published by Otoritas Jasa Keuangan (2020), the total assets of Islamic banks in Indonesia are still less than 7% compared to total national banking assets. This is an irony because the first Islamic banks in Indonesia were established in 1992 or have been approximately two decades. Many Islamic scholars from Indonesia have also predicted

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that the share of Islamic banking assets should be higher and could reach two digits because Indonesia is the most populous Muslim country in the world (Pew Research Center, 2009) and considered as the most religious country by Gallup (Trinugroho et al., 2017).

In this paper, we try to see why Indonesia has experienced the phenomenon of low-share Islamic banks’ shares for years. Surprisingly, although several papers have highlighted this issue (Hasan & Risfandy, 2021; Risfandy et al., 2020), little explanation has been offered from the literature. The fact that Indonesia consists of more than 200 million Muslims, but they have a tiny portion of their fund in Islamic banks raise a question about why it happens and why Indonesian Muslims—intentionally or unintentionally—reject Islamic banks. Specifically, in this paper we try to understand Muslim’s argument about riba. The Quran, chapter 2 verse 275, explicitly states, “…The God has allowed trade and forbidden riba…” However, whether conventional banks’ interest is similar to riba or not is still an unresolved discussion by the ulama (Islamic scholars). The different argument about riba is supposedly related to the current phenomenon of low-share Islamic banks in Indonesia. If they believe that, for example, conventional banks’ interest rate is not similar to riba, it is obvious if Islamic banks in Indonesia currently have a low market share. In other words, some Muslims might argue that the Islamic bank is not the only option of financial intermediary they have. They could also use conventional banks’ services as it does not violate their belief about riba. Another argument that might arise is also because Islamic banks in practice are similar to conventional banks. Muslims tend to choose conventional banks because they are older and more experienced and they can offer superior facilities than the younger and inexperienced Islamic banks.

Another issue we bring in this paper is whether Muslims’ involvement in Islamic organizations will strengthen or lessen the perception of riba prohibition. As the most populous Muslim country, Indonesia has nearly 21 large Islamic organizations dispersed across the Indonesian province. The two largest Islamic organizations are Nahdlatul Ulama (NU) and Muhammadiyah that constitute nearly half of the Indonesian Muslim population. Therefore, in this paper, we also investigate whether those two organizations also have an impact on Muslim perception about riba.

To investigate the issue, we surveyed 626 Muslims dispersed in the most populous island in Indonesia, Java, and the biggest island in Indonesia, Sumatera. To the best of our knowledge, this is the first study investigating the issue of Muslim arguments about riba and interest using a direct survey method in Indonesia’s predominantly Muslim country.

Islam and riba

Suzuki and Miah (2021) define riba as illegal additional income either in buying-selling or lending-borrowing transactions. There are at least seven verses in Quran highlighting the prohibition of riba (chapter 2 verse 275, 2:276, 2:278, 2:279, 3:130, 4:161, and 30:39). The definition of riba from the Qur'an is textually clear. Some Muslims still doubt the riba prohibition especially because the prohibition of riba in the Qur’an is limited only to excessive interest and only for consumer loans (Iqbal & Mirakhor, 2006). If people borrow money for commercial purposes, it would be an injustice if the lender does not obtain some addition of money because of the profit that the borrower has created. Some also doubt whether it is also categorized as riba if the money they lend is based on the inflation or time value of money (Iqbal & Mirakhor, 2006). For instance, if people borrowed a specific amount of money 5 years ago and give it back to the lenders this year with a similar amount, isn’t it also injustice? The value of fiat money indeed decreased after 5 years because of inflation. All of those arguments end up to an unended discussion and a heavy debate and about riba and whether the prohibition of riba is really fair for the lender and borrowers.

This issue has not been resolved because five main Islamic schools of thought (Maliki, Shafi’i, Hanbali, Hanafi, and Shi’i) also have different interpretations about the Qur’anic injunctions related to riba (Kamla & Alsoufi, 2015). Some perspectives on the definition of riba include a fatwa from Sheikh Mohamed Sayyid Tantawi who argues that interest in investments with the government based on certain interest rates is not classified as riba (Vogel & Hayes, 1998). Sheikh Tantawi, the leading cleric in Sunni Islam worldwide and the former Rector of Al Azhar University in Cairo, also asserts that interest-bearing bank deposits are more “Islamic” than Islamic products embedded with unfavorable terms to the customers (Vogel & Hayes, 1998). Sheikh Ahmad ibn al-Tayyib al-Sarakhsi, a Persian jurist and also an Islamic scholar of the Hanafi school of thought, defines riba as the excess of the transaction (sale/exchange) that is determined without any equal return for both parties. Majd al-Din ‘Azzam, an adviser to the International Union of Islamic Banks, contends that anything that exchanges money for money on the basis of selling a commodity which the buyer becomes the owner after the buyer bears the obligation to pay the price is not categorized as riba (Kamali, 2000). Al-Zuhayli (2006), a famous Syrian professor in Islamic law who holds positions as fiqh committee expert council in several countries, defines riba as credit and unauthorized sales transactions due to one party which increases compensation.

The study about riba, whether it is permissible or not, is also often linked to the contribution to the nation’s economy. Syed Nawab Haider Naqvi, a former director of the Pakistan Institute of Development Studies, argues that the abolition of the riba system is an effective way to promote an economic system that is free from exploitation, but his own caution is to equate interest with riba (Farooq, 2012; Naqvi, 1981). Suzuki and Miah (2021) also propose benchmarking Islamic finance based on sharia by “raf’ al-haraj” or elimination of
difficulties, meaning that as long as a transaction does not provide an opportunity for exploitation of anyone, it is allowed by Shariah. The benchmark for determining Shariah is also as stated in the Qur’an: “God does not burden you (haraj) in religion” (Quran, chapter 22 verse 78).

To sum up, according to Caeiro (2004), there are three interpretations regarding bank interest and riba from Islamic scholars or ulama:

1. Idealist: Islamic banking is limited to the contracts allowed in classical Islamic law and bank interest is a grave sin.
2. Pragmatic: Bank interest is indeed forbidden but the Muslims should look at any way to avoid it using some innovative and unorthodox ways.
3. Liberal: Today’s bank interest is not similar to riba and riba is not inherently evil.

**Riba and Islamic Organization**

Indonesia is a home for Muslims. The country has a 270 million population (Badan Pusat Statistik, 2021) and approximately 85% of them are Muslim. However, Indonesia is not a Muslim state. Instead, the freedom of performing religious activities is protected by Indonesian law and the freedom of creating and following the Islamic organization. Indonesia has a large number of Islamic organizations. The number of mass organizations officially registered in the Ministry of Law is 393,497. Therefore, by assuming that 85% of them are Islamic-based, there are approximately 334,000 Islamic organizations.

Muhammadiyah and Nahdlatul Ulama (NU) are considered the two biggest Islamic organizations in Indonesia and even the world (Dewayanti & Saat, 2020). Muhammadiyah represents modernist Islam and it focuses on reforms on education and welfare using the Islamic method. NU symbolizes traditionalist Islam and its focus is preserving the integration of Islam and Indonesian culture. This is why they have their own followers that are usually mutually exclusive: Muhammadiyah followers are not NU followers, and vice versa. The distinction of the two organizations led them to have different perspectives and fatwa (religious decree) regarding riba and bank interest.

In Muhammadiyah’s organizational structure, there is a Majelis Tarjih and Tajid or a department that have a function to issue a fatwa regarding Islamic issue that raise a debate in the Muslim society. The department contains Islamic scholars, ulama, and experts in Islamic law. Any judgment issued from this department is officially a judgment from Muhammadiyah as a whole. Muhammadiyah has discussed the banking and finance topics several times since 1968. In the earlier fatwa, they conclude that conventional banks’ interest is strictly prohibited for Muslims (haran) but they could be considered as doubtful (mutasyabihat) if the banks are state-owned (Choiruzzad & Nugroho, 2013). Interestingly, in the 2006 fatwa, Muhammadiyah (2006) is no longer states that interest is doubtful. Muhammadiyah explicitly says that bank interest is forbidden and they recommend Muslims only to perform any economic activities that are permissible in Islam. In the fatwa, it is also recommended that the Islamic financial institutions should increase the quality of the service in order to serve more Muslims but still according to the Islamic law.

While Muhammadiyah has Majelis Tarjih and Tajid in their organizational structure, NU has Lajnah Baksul Masa’il or a part organizational body for discussing any Islamic problems. Choiruzzad and Nugroho (2013) highlight that the Lajnah Baksul Masa’il forums held in 1927 have no agreement about banks’ interest and riba and resulted in three views about this:

1. Bank interest is riba and it is prohibited because technically those two are the same.
2. Bank interest is not riba and it is allowed because there was no specific condition attached when the contract occurred.
3. Bank interest is doubtful because there are competing views against them.

There are also another discussion forum initiated in 1982 but the three views from NU about riba resulted from the forums remain no clear cut, even until when this paper is written. Therefore, it is upon to their followers which position they want to take.

**Islamic Banks in Indonesia**

Although Muslims dominate the Indonesian population, the share of Islamic banks is still minimal. In 2021, Islamic banks in Indonesia had shown positive assets, financing, and deposits, but the market share of Islamic banking was still very low compared to its conventional peers. According to Otoritas Jasa Keuangan (2021a), in September 2021, Islamic banks’ total assets have reached USD 139.33 billion, but it is only 6.52% over total Indonesian banking assets.

We predict that this condition could be caused by several factors. First, it cannot be denied that conventional banking products are more familiar and easier to understand than Islamic banking products such as mudaraba, musharaka, or musarabaha. Islamic banking products require complex understanding to avoid public confusion regarding the benefits that can be obtained (Akbar et al., 2012). Lack of public information can lead to misunderstandings such as trust in investment returns in Islamic banking that is not equivalent to that offered by conventional banking. Consequently, although they are Muslims, conventional banking customers are reluctant to switch to Islamic banking products (Butt et al., 2018). Second, Indonesian people might think that the Islamic and conventional banking systems are not really different and both of them are allowed in Islam. In practice,
Islamic banking in Indonesia is very similar to its conventional peers (Pepinsky, 2013; Wulandari & Subagio, 2015). Therefore, in choosing which bank to assist their need of financial services, Muslims is not merely see the religious factors (Awan & Bukhari, 2011; Butt et al., 2018; Pepinsky, 2013) but also some other factors that influence banking choices in general, such as satisfaction toward bank services and operations (Butt et al., 2018) or the price of banking products (e.g., choosing bank with lower administrative costs; Wulandari & Subagio, 2015). Third, the number and quality of Islamic banking facilities are not comparable to the conventional banks. One of the obstacles that can inhibit customers from switching from conventional banking is the availability of facilities such as ATMs, branch offices, and others (Wulandari & Subagio, 2015).

### Empirical Evidence

To understand how Islamic organizations affect Muslim perception related to Riba, we conducted a survey of 626 Muslims dispersed in 16 provinces in Indonesia as portrayed in Table 1. We asked them whether they agree that: (1) Riba is prohibited in Islam and (2) Bank’s interest is equal to riba. They are also asked regarding their involvement in Islamic organizations. The survey was conducted through an online questionnaire (Google forms) in the mid of July 2021. We present the descriptive statistics of our sample in Table 2.

In the first regression, which is shown in column (1), we find that IslamicOrg does not have any impact on RibaProhibited. This is obvious because as we could see from the descriptive statistics, 93% of our respondents said that riba is prohibited in Islam. It seems that Indonesian Muslims believe that the religion teaches them that riba should be avoided in daily Muslim life. The non-significant impact of IslamicOrg suggests that their involvement or non-involvement in Islamic organizations will not strengthen or lessen their perception that riba is prohibited.

In column (2), we change RibaProhibited with RibaSimilar and we find that IslamicOrg shows a negative and coefficient result. This means that the participation of the Muslims in the Islamic organization will lead them to think that riba is not similar to banks’ loans. There might be several reasons behind this. First, when Muslims follow an Islamic organization, they are more likely to follow more Islamic speech (khutbah) from their organization than those who do not follow. Each Islamic organization usually has a periodic, mostly weekly, Islamic speech from their organization. Attending this

| No | Province       | Island | N     | %  |
|----|----------------|--------|-------|----|
| 1  | Aceh           | Sumatera | 14    | 2.12 |
| 2  | Bandar Lampung | Sumatera | 1     | 0.15 |
| 3  | Banten         | Java    | 35    | 5.31 |
| 4  | Bengkulu       | Sumatera | 5     | 0.76 |
| 5  | DI Yogyakarta  | Java    | 45    | 6.83 |
| 6  | DKI Jakarta    | Java    | 33    | 5.01 |
| 7  | Jambi          | Sumatera | 9     | 1.37 |
| 8  | Jawa Barat     | Java    | 120   | 18.21 |
| 9  | Jawa Tengah    | Java    | 196   | 29.74 |
| 10 | Jawa Timur     | Java    | 121   | 18.36 |
| 11 | Kepulauan Riau | Sumatera | 5     | 0.76 |
| 12 | Lampung        | Sumatera | 20    | 3.03 |
| 13 | Riau           | Sumatera | 11    | 1.67 |
| 14 | Sumatera Barat | Sumatera | 12    | 1.82 |
| 15 | Sumatera Selatan | Sumatera | 11    | 1.67 |
| 16 | Sumatera Utara | Sumatera | 21    | 3.19 |
| Total |            |         | 659   | 100 |

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Religious activity will make them have more views about Islam and possibly more arguments about *riba*. For instance, while previously they only read from the Al Quran that “... God has allowed trade and forbidden usury ... (Qur’an, Surah Al Baqarah, verse 275)” and they stick on that without any question, after joining the Islamic organization, they have more perspective about *riba*. They learn the history of why *riba* is prohibited, such as because it is used for exploiting and making profits from the poor and needy (Abedifar, 2019).

In column (3), we try to break down the Islamic organization into Muhammadiyah and NU because those are two organizations with the highest followers, as we explained earlier. The result shows that we do not find a significant impact of *Muhammadiyah*, meaning that Muhammadiyah members see that *riba* and conventional banks’ interests are the same. However, we find that variable *NU* shows a negative sign and it is significant at 1% levels. Compared to the result from column (2) (*IslamicOrg*) that the coefficient and the significance for *NU* is higher, meaning that the result from column (2) could also be driven from the NU respondents. This result suggests that when people are a member of NU, they will likely argue if the banks’ interest is not similar to *riba*.

The NU actually does not specify whether *riba* is halal (allowed) or *haram* (prohibited). Choiruzzad and Nugroho (2013) highlight that in the *Bahlil Masa’il* Forum of NU which was held in 1927 and 1982, there are three recommendations of *riba*: (1) Bank interest is prohibited (*haram*) in Islam because it is in accordance with the definition of usury in the Qur’an and Islamic law in general. It is a form of lending in which a lender takes some benefit or repayment from the loan. (2) Bank interest is something that is permissible (*halal*) because there are no specific conditions (such as the exact amount of addition) that bind two parties at the time of the transaction (*aqad*). (3) Bank interest is considered doubtful (*mutasyabihat*) because of the different opinions among Islamic scholars. In other words, there is no clear-cut decision from NU whether *riba* is permissible or forbidden. Because of no final consensus on whether *riba* is permissible or forbidden, the followers of NU therefore have more perspective and choice about *riba* and they could follow which one they want.
This is also relevant to the argument of NU scholars such as Muhammad Syamsudin. The definition of riba is actually could be seen either from textual or rational perspectives. From the textual perspective, the banks’ interest is similar to riba. This implies that all conventional banking mechanisms nowadays should be revised especially in the transaction contract. This is because every addition of the money that customers borrow or lend is categorized as riba and it is strongly prohibited in the Quran. Conversely, in the rational perspective, the prohibition of riba is emphasized on the injustice. If banks’ interest does not have oppressive elements to their customers, even it can benefits the country’s economy, it is permissible. In the rational perspective, the definition of riba should refer to the earlier riba practices where the banks did not exist. At that time, a lending and borrowing mechanism are categorized as riba if (1) there is an implicit contract that the borrower should add a specific amount in the money they borrow, (2) the nature of the additional amount of money is excessive, and (3) the additional money exceeds the main value.

Our empirical evidence is also in line with the views of the fourth President of Indonesia, Abdurrahman Wahid, the grandson of NU founder Hasyim Asy’ari. Abdurrahman Wahid was also a NU leader. Around 1990, when most Muslims were optimistic about the creation of the first Islamic banks through ICMI (Indonesian Association of Muslim Intellectuals), Abdurrahman Wahid criticized it because of some reasons such as (1) ICMI is going to sacrifice the security of depositors’ fund and (2) Islamic banks is actually a moral burden for Muslims (Choiruzzad & Nugroho, 2013). Controversially, Abdurrahman Wahid is also one of the founders of Bank Summa, a conventional bank established in 1990 jointly with a group of Christian family entrepreneurs.

Conclusion

This paper examines the Muslim’s perception of riba and how the participation of the Muslims in the organization will alter their riba perception. Conducting a survey on 626 Muslims in 16 provinces in Java and Sumatera islands, our statistics show that most of them agree that riba is something forbidden in the religion. When we ask them whether the banks’ interest is similar or different to riba, however, they have mixed answers. Although most of them said that those two things are similar, respondents also said that the interest in conventional banks is not similar to riba. We further find that their involvement in the Islamic organization will strengthen the perception that bank interest is not similar to riba. We conjecture that this phenomenon is because of the more Islamic teaching they receive when they are involved in the Islamic organization. More specifically, our finding shows that the disagreement about the similarity of riba and interest comes from the NU followers. This evidence is supported by the fact that the NU has never issued a single fatwa about riba and interest. In the Bahil Masa’il Forum of NU, no conclusion has been reached and the status of the riba could be divided into permissible (halal), forbidden (haram), and doubtful (mustasyabihat). It is therefore up to their followers which one he/she will take.

This study, however, has several limitations that possibly make the result of this study could not be generalized in a broader Indonesian context. First, we choose a random sampling method for Muslims in 16 provinces in Java and Sumatera islands and we do not take the sample proportionally relevant with the province’s population. Second, although our sample is diverse relative to their ages (minimum 18 and maximum 49 years old), the mean is 24 years old. This might be because the survey is conducted online using Google Form and millennials are more adapt to this type of survey method than Gen X or Baby Boomers.

For further agenda, we suggest that the future researchers could still focus on the differences between conventional banks’ interest and riba but in the more focused approach, not only “yes” or “no” questions. Alternatively, future researchers could also investigate Muslims’ incentives to open their accounts by asking the reasons for Muslim depositors who open their accounts in conventional banks and Muslim depositors who open their accounts only in Islamic banks.

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