

LITERATURE STUDY ON PRODUCT INNOVATION BARRIERS IN SHARIA BANKING INDUSTRY IN INDONESIA

HARIS AL AMIN^{1*}, ANDRI SOEMITRA², SYAWAL HARIANTO³, ABDUL HALIM⁴
and AHMAD FAUZUL HAKIM HASIBUAN⁵

^{1,3,4}Politeknik Negeri Lhokseumawe, Lhokseumawe Aceh.

²Universitas Islam Negeri Sumatera Utara, Medan.

⁵Universitas Malikussaleh, Lhokseumawe.

*Correspondence Address E-mail: haris@pnl.ac.id

Abstract

This study aims to analyze the low level of product innovation in the Islamic banking industry in Indonesia. The data used in the analysis related to the topic of the study were taken from various literatures, both from books and journal articles. The data from various sources were then analyzed using a literature review approach. Based on the results of the analysis, it was found that there are several causes for the low product innovation in the Islamic banking industry in Indonesia. Innovation is the spirit of marketing because every open market player must have an advantage that distinguishes it from other players. Such is the importance of innovation in the world of business competition, some management teachers express the motto "Innovate or Die" ; there is no other choice to survive or lead. The method used in this study is a literature review study of the literature. The literature study in this research was conducted to study the definition of keywords, deepen the theory and concepts and identify variables related to the background and context of the research. Literature studies relating to the analysis of barriers to product innovation in Islamic banks are still limited, journal searches using the publish or perish application are searched on Google Scholar with the keywords "Islamic bank product innovation" maximum number of results 20 and year category all years (0-0) There are eight journal articles. The following are the details of the journal search results using the publish and perish application and the search on Emerald Publishing. Search through the publish and perish application on Google Scholar with the innovation keywords of Islamic bank products: 5 papers. Emerald Publishing on Emerald Insight, with title words: product innovation in Islamic banks: 5 papers.

Keywords: Inovasi, Product, Islamic Banking

1. INTRODUCTION

The Islamic banking industry is a banking system that has many advantages when compared to the conventional banking system, both in theory and in practice, this can be seen from the resilience of the Islamic banking industry to the economic crisis that occurred in 1997-1998 and in 2008 the Islamic banking industry was able to overcome it. And more stable than the conventional banking industry, another advantage of the Islamic banking industry is in terms of the concept of the number of product contract skins it has, in muamalah fiqh theory there are many types of contracts that can be applied in the Islamic banking industry.

Islamic banking products should be able to more realistically integrate with the culture and traditions of the people in Indonesia in carrying out economic activities so that Islamic banking has a great opportunity to manage market potential where 80% of Indonesian people

are Muslims, but if viewed in reality the large market share is inversely proportional. After approximately 30 years of Islamic banks running their business based on data from the Financial Services Authority (OJK) in terms of market share of Islamic banking as of April 2020 it reached 9.03% and has assets of 6.07%. Achieved in 2020, which is 14.9%.¹

Minister of Finance Sri Mulyani said that Islamic banking third party funds in the second quarter of 2021 grew to 16.54% or higher than the growth of conventional bank deposits. This illustrates that there is a development and dynamics that is quite real, thus Sri Mulyani assesses that Islamic banks are able to survive and growing high in an atmosphere of the covid-19 pandemic crisis. As for Islamic banking assets in the second quarter of 2021 also showed quite high growth, namely 15.8% on an annual basis. However, the Market Share of Islamic banks only reached 6.59%, still low compared to other banks. - Conventional banks.² the impression that Islamic banks are the same as conventional banks is also still very strong as a brand image in the community; some even complain that Islamic bank products are more expensive when compared to conventional bank products. Society, thus making the growth rate of Islamic banks slower.

Entering the digital financial era, there is no longer any reason for the Islamic banking industry in the country not to rise up and take advantage of opportunities to be able to grow into a strong and contributively Islamic banking industry, both at home and abroad. The Islamic banking industry can actually take advantage of several opportunities, one of which is to refresh the product sector so that it can provide a variety of choices and expand its reach to the community³. So it is hoped that the impression of Islamic banking products as imitations of conventional banking can be refuted, through product innovations that have been carried out so far, Islamic banking is still not able to answer market needs and is highly competitive in practice, as stated by Indriati in his research related to product barriers. Islamic bank products are less varied, only limited to savings products, time deposits, demand deposits, murabahah financing, and syirkah⁴.

In an article Sharia Insight in Info bank Magazine. no. 381, December 2010 regarding the growth scenario in 2011 (p. 59) it is stated that there are still several notes from Bank Indonesia for Islamic banking, so that BI is pleased to open up opportunities for foreign investors to enter this industry:

1. BI considers that this industry is still not fast enough to innovate products,
2. Islamic banking is considered less than optimal in building the quality and quantity of human resources.

Therefore, Bank Indonesia wants a new product issued by Islamic banking. To support this desire, Bank Indonesia has made product modification books plus books from overseas banking catalogs. As we know Islamic banking is rich in skin contracts in its fiqh muamalah, if it can be absorbed and applied properly, the image of Islamic bank products as only followers of conventional bank products can be immediately refuted. When viewed again in terms of financing schemes and the number of Islamic banking products is still very limited.

Therefore, Islamic banking product innovation is still one of the classic issues that is still a trending topic in the 2015-2019 Islamic banking roadmap that must be resolved immediately.

Therefore, Islamic banking is required to be able to implement an appropriate strategy model to be able to expand the reach of both domestic and foreign markets (Gunawan, Mukoffi, and Handayanto 2017). In addition, it is also required to be able to implement innovations in raising low-cost funds with low levels of liquidity (Utama and Handini 2017). The results of research by Gunawan, (Gunawan, Mukoffi, and Handayanto 2017) show that Islamic banking products are not varied⁵.

From the facts of the phenomenon above, the researcher is interested in further researching and analyzing the barriers to product innovation in the Islamic banking industry in Indonesia with the literature review method associated with the title above, besides that this study aims to develop a conceptual model for Islamic banking product innovation in Indonesia by including several *wahdatul ulum* (regional cultural specificity) variables that need to be researched and analyzed in Islamic banking product innovation.

2. LITERATURE REVIEW

2.1 Product Innovation

Understanding Innovation is a process and/or also the result of developing the use of a product/resource that has been/pre-existing, so that it has a more meaningful value. The spirit of product innovation in Islamic banks is based on the hadith of the prophet that today is worse than the previous day is a wretched person, today is the same as the previous day, the person who lost today is better than the previous day is a lucky person, among the characteristics of the institution or a good company, especially bearing the name of sharia, is an institution oriented to four things: innovation, efficiency, service, and responsibility. Innovation is the spirit of marketing because every open market player must have an advantage that distinguishes it from other players. Such is the importance of innovation in the world of business competition, some management teachers express the motto “Innovate or Die” (innovate or die); there is no other choice to survive or lead. Furthermore, this innovation or *Mayyizah* in the Mark plus & Co Strategy-Tactic-Value (STV) is known as differentiation which is the core tactic of winning market share. Only with precise differentiation, business players will be able to do a marketing mix with other advantages it has so that the selling process will run smoothly. In winning this market share, a sharia marketer must not only continue to innovate, but also must pay attention to the second thing, namely efficiency. Innovation is not a concept of a new idea, a new invention or also not a development of a new market. According to Van de Ven, Andrew H. innovation is the development and implementation of new ideas by people who within a certain period of time conduct transactions with other people in an organizational setting⁶. Meanwhile, according to Stephen P. Robbins innovation as a new idea that is applied to initiate or improve a product or service process. According to Myers and Marquis in Kotler, product innovation is a combination of various processes that influence each other. So innovation is not a concept of an idea, invention or development of a new market but a combination of all these processes

so that it can be said as an innovation. With the product innovation by the company, it is expected to improve the decision for consumers to buy⁷. States that innovation is part of a framework that links aspects of corporate culture with the ability to innovate as well.

2.2 Products at Islamic Banks

The general product of Islamic banking is savings regarding the method of collecting funds carried out by Islamic banks as described above. In the Islamic banking system, there are several products that have been operated or applied in the socio-economic life of the community. However, there are a number of Islamic banking products that have not been implemented for several reasons, but these products have even been implemented in several countries with a majority Muslim population.

In general, every Islamic bank in running its business has five operational principles, namely the principle of pure savings, the principle of profit sharing, the principle of buying and selling, the principle of lease, and the principle of services (fees). The product development strategy is part of the corporate strategy. Islamic banks provide many options for the public to obtain financing that does not only depend on one type of bank with its products, if Islamic banks are able to read the potential of the area and the needs of the population have been owned by Islamic banking, the development of Islamic banking products is a necessity for Islamic banks. In the area in order to be able to meet the needs of the community.

3. METHODOLOGY

The method used in this research is a literature review study of the literature. The literature study in this research was conducted to study the definition of keywords, to deepen theories and concepts and to identify variables related to the background and context of the research⁸. Literature studies relating to the analysis of product innovation barriers in Islamic banks are still limited, search journals using the publish or perish application, search on Google Scholar with the keywords "Islamic bank product innovation" maximum number of results 20 and year category all years (0-0) There are eight journal articles. The following are the details of the journal search results using the publish and perish application and the search on Emerald Publishing. Search through the publish and perish application on Google Scholar with the innovation keywords of Islamic bank products: 5 papers. Emerald Publishing on Emerald Insight, with title words: product innovation in Islamic banks: 5 papers.

4. RESULTS

4.1 Literature review Publish and Perish

Searching the literature review using the publish and perish application on Google Scholar with the keywords of Islamic bank product innovation, there are 5 papers related to the title "Barriers to Product Innovation of Islamic Banks in Indonesia" related articles include the following:

No.	Articles	Year
1.	Apriyanti, H. W. (2018). Model Inovasi Produk Perbankan Syariah di Indonesia. <i>Economica: Jurnal Ekonomi Islam</i> , 9(1), 83-104.	2018
2.	Pasrizal, H. (2013). Konsep Marketing Dalam Inovasi Produk Perbankan Syariah. <i>Nizham Journal of Islamic Studies</i> , 1(1), 35-44.	2013
3.	Hafidz, A. M. (2015). Keterlekatan Sosial Inovasi Produk Bank Syariah di Indonesia. <i>Jurnal Hukum Islam</i> , 70-78.	2015
4.	Mukhlisin, A., & Suhendri, A. (2018). Strategi Pengembangan Produk Bank Syariah Di Indonesia. <i>JES (Jurnal Ekonomi Syariah)</i> , 3(2).	2018
5.	Fatimatuzahro, A., & Aslikhah, A. (2020). Strategi Inovasi Produk Perbankan Syariah Dalam Meningkatkan Jumlah Nasabah Di Pt. Bprs Daya Artha Mentari Bangil Pasuruan. <i>Jurnal Mu'allim</i> , 2(1), 81-93.	2020

4.2 Literature review of Emerald Publishing

Through a literature review on Emerald Publishing related to the title "Analysis of Barriers to Product Innovation of Islamic Banks in Indonesia" with the keywords "product innovation in Islamic bank", six related articles were found, including the following:

No.	Articles	Year
1.	Chaudhry, N.I., Roomi, M.A. and Dar, S. (2020), "Barriers to financial product innovation in Islamic banks in Pakistan: An interpretive structural modeling approach", <i>Journal of Islamic Accounting and Business Research</i> , Vol. 11 No. 2, pp. 346-360. https://doi.org/10.1108/JIABR-05-2017-0063	2020
2.	Al-Salem, F.H. (2009), "Islamic financial product innovation", <i>International Journal of Islamic and Middle Eastern Finance and Management</i> , Vol. 2 No. 3, pp. 187-200. https://doi.org/10.1108/17538390910986326	2009
3.	Awais Ahmad Tipu, S. (2014), "Employees' involvement in developing service product innovations in Islamic banks: An extension of a concurrent staged model", <i>International Journal of Commerce and Management</i> , Vol. 24 No. 1, pp. 85-108. https://doi.org/10.1108/IJCoMA-09-2013-0095	2014
4.	Ali, M. and Puah, C.-H. (2017), "Acceptance of Islamic banking as innovation: a case of Pakistan", <i>Humanomics</i> , Vol. 33 No. 4, pp. 499-516. https://doi.org/10.1108/H-11-2016-0085	2017
5.	Iman, N. (2020), "Financial innovations in Islamic countries: the road to perdition or salvation?", <i>Journal of Islamic Marketing</i> , Vol. 11 No. 6, pp. 1579-1600. https://doi.org/10.1108/JIMA-07-2018-0123	2020

5. DISCUSSION

Based on the results of the study, it was found that there are several factors that influence product innovation, both internal and external. Internal factors mean the organization and everything in it; including human resources, corporate culture, company strategy, and company organizational structure. While the external factors that influence it are market growth, level of competition, the role of regulators, and support for the Fatwa of the National Sharia Council.

The existence of Islamic banks provides an option for the public to obtain financing that does not only depend on one type of bank and its products, but the public is free to choose which institutions and products are most appropriate to their capacity and business conditions. In principle, if Islamic banks are sensitive to reading the needs of the community based on geographical conditions, and are able to map the needs of the community based on the sources of income of the people in the region, the development of banking products to meet the needs of each region will be different⁹. Innovation is also the key to increase productivity and competitiveness. For the business world, innovation means company growth. It can be said that an innovative company is certainly the dream of shareholders because it can increase profits.

The absence of innovation can lead to business stagnation, where this condition makes it vulnerable to a reduction in employment. Therefore, Islamic banking must be able to innovate and think out of the box in order to compete with conventional banks to increase market share. The more innovative Islamic banks make products, the faster the market will develop. Thus, the weak product innovation of Islamic banks, however, has a significant impact on the slow development of the market. Weak product innovation and market development of Islamic banks must be addressed immediately, so that the acceleration of development of Islamic banks is faster. Product innovation is needed so that Islamic banks can be more optimal in taking advantage of global phenomena. Therefore, it must carry out extraordinary acceleration initiatives in market development and product development. The lack of product innovation, among others, is due to the limited capacity of human resources. Let alone to develop creative and innovative products, to understand the concept of existing products, the ability of Islamic bank human resources is still limited. Sharia bank officers generally already understand the basic concepts of existing sharia products, but there are still many sharia bank officers who do not understand well the concept and application of the National Sharia Council fat was to be used as a reference for sharia banking product innovation¹⁰.

To gain a trust, banks must be able to work professionally as expected by customers from a financial perspective, in terms of services, and marketing strategies that must be managed properly and banks must also be more creative in producing new products that the public or customers want. So that the existence of this institution can be maintained in the midst of competition. So that Islamic banking in Indonesia can follow and even exceed the performance of conventional banking. Thus, Islamic banks that is willing to develop product innovations that will be able to survive the fierce competition in financial institutions, as well

as those that will be able to retain their existing customers, and are able to realize the expectations and needs of consumers or customers.

Because consumer satisfaction will be achieved if the quality of the products and services provided is in accordance with their needs. Thus, the company has a greater opportunity to grow and develop in the long term than other companies that only prioritize profits without maintaining and maintaining the quality of the products and services they produce. So Islamic banks have a harder task in realizing quality products and services and developing product innovations continuously.

Barriers to product innovation of Islamic banks in Indonesia will be overcome if Islamic banks are able to innovate products that are able to meet the product needs of customers in Indonesia by being customer-oriented, both to the needs and desires of the people who use Islamic banks, in addition to being able to maintain consistent compliance with the values and sharia principles, as well as social values and culture that develop in society. The developed sharia products are expected to be widely accepted by the community with characteristics close to the socio-cultural community, easy to accept, and able to fulfil the aspirations of the people's choices.

Product development is one of the important strategies of a company, including Islamic banks. In the context of Islamic banks in Indonesia, the products that have been offered so far cannot be separated from the social phenomenon in which Islamic banks are located. It should be understood that Islamic banks in Indonesia were born in the construct of Indonesian nationality which requires Muslim citizens to practice the first precepts of Pancasila, which is a reflection of the values of the One Godhead and guarantees for Muslim citizens to carry out their religious teachings, including in the economic sector. Islamic banking products in Indonesia were also developed by examining the cultural and social values that developed in Indonesia. Furthermore, Islamic banks also need to pay attention to sharia compliance with the existence of the Sharia Supervisory Board which ensures that the products managed by Islamic banks are in accordance with Islamic teachings. Furthermore, Indonesian Islamic bank products must also pay attention to the condition of the Indonesian people who are dominant in having Micro, Small, and Medium Business actors. Sharia bank products that are able to accommodate the needs of the community as Micro, Small and Medium business actors are certainly one of the important things to pay attention to in the context of Islamic bank product innovation in Indonesia.

Islamic banks need to also pay attention to product innovation as a strategy to expand market share requires Islamic banks to provide many choices to the public. To be able to do this bank Sharia needs to have the ability to read the potential and how to meet the needs of the community based on the magnitude of that potential. The choice of Islamic bank product innovation is not just recycling products that are commonly developed in the banking sector. But it is also expected to be able to develop innovative products that touch the various needs of the community with universal products that can not only be used by Muslims but also by people of various religions because they are in accordance with the universal character of Islamic finance as rahmatan lil alamin.

Internationally, barriers to innovation in Islamic bank products are also one of the problems that attract attention. Some of the barriers that have been identified in the innovation of Islamic bank products in several countries in the world include the high cost of product innovation, low customer awareness of the need for innovative Islamic bank products, low research and development related to Islamic bank product innovation, legal opinion gaps. from each sharia board fatwa in a number of Muslim countries issuing sharia bank fat was, the concept of sharia bank products is still not evenly accepted by the general public, limited socialization, education, and training on developing sharia bank products, new products that are easily duplicated so that banks others can easily imitate the products offered, as well as limitations in using and developing new products in the Islamic banking sector.

The offer of developing innovative Islamic bank products requires the collaboration of stakeholders, both the management of Islamic banks, the government, the Sharia Supervisory Board, and the community as end users of Islamic bank products. To produce innovative Islamic bank products requires regularity of the supporting factors ranging from support to the innovation process itself; socialization and education as a channel to spread understanding to the public regarding the new product innovations offered by Islamic banks; the need for a time span starting from the process, socialization, to the launching and use of innovative products to users; and the need to utilize a social system that can support the success of sharia banking product innovation.

6. CONCLUSION

Product innovation is the key to Islamic banking to be more useful, competitive and develop more quickly according to the needs of the community. Product innovation must be a priority strategy for Islamic banks, because innovation has an important role in reaching and controlling the ever-changing market. For this reason, the Islamic banking industry is required to develop, be creative and innovate new products. The success of the Islamic banking system in the future will depend a lot on the ability of Islamic banks to present attractive, competitive products and provide ease of transactions, in accordance with the needs of the community and the market industry. To develop varied and attractive products, Islamic banks in Indonesia can establish cooperative or affiliated relationships with international financial institutions.

This cooperation will be beneficial in developing Islamic bank products. Islamic banks can learn practical lessons from banks that have experience abroad in various countries that develop Islamic banking. This scheme and model can at least be an example or provide inspiration for developing Islamic bank products. Conventional banking has long played its role as a financial institution that serves the Indonesian people for a very long time when compared to Islamic banking. So like it or not, Islamic banking must be more active in product innovation if it wants to have more market share while gradually being able to win the competition even if it is predicted that it will take a very long time.

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