

# Islamic Economic Analysis Reviews: The Practice of Transparency of Effective Flat Banking Installment Systems

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## **Abstract**

*This paper is motivated by the existence of customers who do not understand the installment system that should be explained by the bank when offering their products. While the delivery of product information in which there is an installment system (flat effective), the bank takes profits in advance from the customer. This will be aggravated when the customer repays the smoothly and regularly loan installment, the bank will renew the credit again by increasing the number of new credit where the principal loan will be given by the bank, which means the customer will receive a new installment schedule with the composition of loan interest greater at the beginning. The purpose of this study is to find out how the application of the principle of transparency and its obstacle factors in implementing Bank Indonesia regulation Number: 7/6 / PBI / 2005 concerning transparency of bank product information. This study is a qualitative research with a normative evaluative approach. The study indicates that transparency of using the installment system to the customer is very important because the customer will know their rights and obligations while they are taking flat installment system. This is because most customers do not know the benefit of effective flat installment system. An effective, transparency flat installment to customers is very important to prevent misunderstandings that can cause harm to both parties especially to customers.*

**Keywords:** *Islamic Economic Analysis, Transparency, Effective Flat, Banking.*

## **A. INTRODUCTION**

Banking is a financial intermediary institution, namely a business entity that collects funds from the public in the form of deposits and redistributes it to other people who need it in the form of credit or financing and provide services in payment facility. As a financial institution, banks are institutions that are fully regulated so that it is said that banking is the most regulated industry in the world.

Banks are institutions whose existence needs public trust or fiduciary relations. As a trust institution, the bank should provide information about the products offered to prospective customers, as it has been regulated in Bank Indonesia Regulation number 7/6 / PBI / 2005 concerning Transparency of Bank Product Information and Use of Customer Personal Data, especially in Article 4, namely:

1. Banks are required to provide complete and clear written information in Indonesian language regarding the characteristics of each Bank Product.
2. The information as referred to in paragraph (1) must be submitted to the Customer in writing and or verbally.
3. In providing information as referred to in paragraph (1) and paragraph (2), Banks are prohibited from providing misleading and / or unethical (misconduct) information.

This research is motivated by the existence of customers who do not understand the installment system that should be explained by the bank when offering their products, while the delivery of product information in which there is an installment system (flat effective), namely the installment system (loan interest income is received more in the first months installments and decreasing interest in accordance with the remaining principal) are suspected by the bank to take advantage of the customer in advance. And this will be aggravated when customers repay their installments routinely means that the customers are current, the bank will renew the credit again by increasing the number of new credit plafonds where the principal loan principal will be given a bailout by the bank, which means the customer will receive a new installment schedule with the composition of interest on loans (interest income for banks) received earlier. From these problems transparency to the customer is very important because the customer will know what their rights and obligations are,

which are generally the majority of customers do not know what the effective flat transparency system is to customers is very important to prevent misunderstandings that can cause harm to both parties, especially to customers. From these problems, banks should comply with Bank Indonesia regulation number 7/6 / PBI / 2005 which includes the calculation of interest or profit sharing and profit margins.

Islamic economics based on Islamic values and principles can be applied in all aspects of the business life and transactions of the ummah. This desire is based on an awareness to implement Islam as a whole and in total as affirmed by Allah SWT in surah al-Baqarah verse 85 which means: "... Do you believe in some of the Bible (Torah) and deny some others? There is no reply to those who do this than you, but evil in the life of the world, and on the Day of Resurrection they are returned to a very severe punishment. God is not indifferent to what you are doing. "

Islamic Economics should be a solution to the transparency in the banking sector, especially in terms of an explanation of the effective flat installment system. The identification of problems in this study are:

1. The customer does not understand the installment system which should be explained by the bank when offering the product.
2. Effective flat installment system
3. Transparency to customers by banks
4. Implementing Bank Indonesia regulations Number: 7/6 / PBI / 2005 concerning product information transparency and transparency practices in terms of Islamic economics.

In order for this discussion to be more focused, it is necessary to set limits on the discussion. Limitations of the problem in question include Islamic economics analysis reviews the practice of transparent banking installment system transparency. The purpose of this study was to find out how the application of the Transparency Principle and its inhibiting factors in implementing Bank Indonesia regulations Number: 7/6 / PBI / 2005 concerning transparency of bank product information. and how transparency is applied in terms of Islamic economics. The benefits that can be drawn from the results of this study are this research will produce Islamic economic analysis to review the practice of effective flat installment system transparency in banking. The primacy of this research is to analyze how the application of the principle of transparency and its inhibiting factors in implementing Indonesian bank regulations Number: 7/6 / PBI / 2005 concerning transparency of bank product information and how transparency is applied in terms of Islamic economics.

## **B. LITERATURE REVIEW**

### **1. Previous study**

In this Literature Review, the results of other studies that have been conducted and related to the research topics highlighted in the study.

Anisyah (2014) examined Islamic Law on Installment Calculation Mechanisms for Murabahah Financing at Bank Rakyat Indonesia Syaria'ah Branch Office Surabaya. The method used is an analysis with an inductive verification method. She found that the calculation of installments on Murabahah financing at Bank Rakyat Indonesia Syaria'ah Branch Office Surabaya before maturity uses two calculations in one transaction, namely the calculation of flat installment tables and effective target pattern tables. The study revealed calculation of installments before maturity is not notified at the time of the contract even though the calculation before maturity is very different from the calculation after maturity. The law of determining the calculation is not permitted, because in Islamic law buying and selling nasi'ah cannot be with two prices.

Maruli (2013) investigated which is more profitable for PT. BPR PHJ Samarinda in providing credit with Flat and Sliding interest calculation methods. The analysis was carried out by comparing the Net Present Value (net present value) of earnings per year of lending for a period of 12 months, 24 months and 36 months with Flat and Sliding interest calculation methods. The results of the study showed that the higher net present value per year for all credit periods is the Flat interest calculation method of 22% per year compared to 36% of Sliding per year. From different periods of time (12 months, 24 months and 36%) the highest annual profit is credit with a 12-month period of Flat interest rate of 22% per annum which is Rp. 43,279,862.94 per year. While those that provide small annual profits are loans with a period of 36 months with a 36% annual Sliding rate of Rp. 32,736,083.13 per year. PT. BPR PHJ can apply different interest rates for each period of time, where for the longer period the interest rate will be higher.

Bobby Setyo Putro (2014) studied about application of the principle of transparency in Mudharabah Financing Products at Islamic Banks (Study at Mandiri Bank Syariah Branch Kepanjen). The purpose of this paper is to examine how the application of the Transparency Principle and its inhibiting factors in implementing Indonesian bank regulations Number: 7/6 / PBI / 2005 concerning

transparency of bank product information and the use of customer personal data by Bank Syariah Mandiri branch of Kepanjen in Mudharabah financing products. The application of the principle of transparency carried out by the Mandiri Islamic bank Kepanjen Branch is in accordance with Bank Indonesia regulation PBI No. 7/6 / PBI / 2005. Factors that hinder Mandiri Syariah Bank Kepanjen Support Branch come from external factors, namely from the customer who does not care about the implementation procedures or regulations.

Lailiyah (2014) assessed application of the principle of 5c in the banking world. The study revealed that banks apply 5c (character, capacity, capital, condition and collateral) principles in providing banking loans to minimize credit risk. The principles used to be as platform by creditor if debtor conducts fraud or unable to make loan repayment as per given in the contract. Finding also revealed that after well conducted as per 5c principles, banks make assessment of whether the debtor is eligible for credit or not.

Nugraheni (2007) investigated application of customer protection financing products of the Jogjakarta Branch KPR BTN Syariah survey conducted by the Indonesian Consumer Institution Foundation in 2005. This research is a qualitative research by presenting interpretative descriptive presentation that provides an in-depth description of the application of customer rights of KPR BTN Syariah financing products well before the transaction with the bank during the transaction and after the transaction with the bank. Respondents in this study are customers financing KPR BTN sharia and bank staff financing officers who are responsible for carrying out KPR financing applications. The study showed that customer rights have not been fully implemented by banks in accordance with the provisions of the PBI UUPK and Islamic economic laws.

## **2. The theory**

### **a. Islamic economics**

Islamic Economics is a branch of science that seeks to view, analyze, and finally solve economic problems with Islamic methods. The method is based on the teachings of Islam, namely the Qur'an and the Sunnah of the Prophet. With this understanding, the term that is also often used is Islamic Economics. (P3EI, 2012: 17). Some economists affirm that the scope of Islamic Economics is Muslim or Muslim countries themselves. To provide a clearer understanding, the following is the definition of the Islamic Economics from Islamic scholar's perspectives:

1. Sharia Economics is an economic science derived from the teachings of the Qur'an and Sunnah. Any form of thought or economic practice that does not originate from the Qur'an and Sunnah cannot be seen as Islamic Economics. Current problems that have not been explained in the Qur'an and Sunnah, used fiqh method to explain whether the phenomenon corresponds to the teachings of the Qur'an and Sunnah or not. In this case, Islamic Economics is considered to have no weaknesses and is always considered right. Failure to solve empirical economic problems is seen not as a weakness of Islamic Economics, but the failure of economists in interpreting the Qur'an and Sunnah.
2. Sharia Economy is an implementation of the Islamic ethical system in economic activities aimed at the development of moral society. In this case, the Sharia Economy is not just a legal justification for existing economic phenomena, but rather emphasizes the importance of the spirit of Islam in identifying the basic Islamic spirit associated with the economy. This spirit then became the basis for the decline of economics
3. Sharia Economy is a representation of the economic behavior of Muslims to implement Islamic teachings as a whole. In this case, Islamic Economics is nothing but an interpretation and economic practice carried out by Muslims who are not error free.
4. Some Muslim economists try to define Islamic economics more comprehensively or combine existing definitions. As stated by Chapra and Choudury in (P3EI,2012: 18) that various approaches can be used to realize the Sharia Economy, both historical, empirical or theoretical approaches. However, this approach is intended to realize human welfare as explained by Islam, namely *falāh*, which means survival, independence, and strength to live.

From the various definitions above, it can be concluded that Islamic Economics is not only a practice of economic activities carried out by individuals and Muslim communities, but also an embodiment of economic behavior based on Islamic teachings. It includes ways to view economic problems, analyze, and propose alternative solutions to various economic problems. Sharia economy is a logical consequence of the implementation of Islamic teachings as a whole.

### **b. Transparency**

Transparency is something that has no hidden purpose in it, accompanied by the availability of complete information needed for collaboration, collaboration and collective decision making. Kristianten (2006: 73) states that transparency can be measured through several indicators:

- a. Willingness and accessibility of documents

- b. Clarity and completeness of information
- c. Openness of process
- d. Regulatory framework that guarantees transparency.

Transparency refers to the availability of information to the general public and clarity about regulations with the following indicators:

- a. Access to accurate and timely information
- b. Provision of clear information about procedures and costs
- c. Ease of access to information
- d. Prepare a complaint mechanism in the event of a violation.

### **c. Effective flat**

Flat interest is a system of calculating interest rates whose amount refers to the principal of the initial debt. Usually, this interest rate is applied to consumer goods loans (Personal Loans). In this flat interest system, the portion and principal in monthly installments will remain the same. For example, applying for a loan of Rp120 million, a flat interest of 5% per year and a loan tenor of 3 years. Then the calculation will be:  $(Rp120 \text{ million} + (Rp120 \text{ million} \times 5\% \times 3) \div 36 \text{ months} = Rp3,833,334$ . So, your monthly installments are Rp. 3,833,334, -

The effective interest system is the opposite of the flat interest system, namely the portion of interest is calculated based on the remaining principal debt. Thus, the interest and principal portion are in installments each the month will be different, although the monthly installments remain the same. This interest system is usually applied to mortgage products or investment loans. The interest rate paid by the debtor every month will decrease. Because the interest paid is reduced, the monthly installments will decrease over time. The second month installments are smaller than the first month installments, and so on.

For example, credit of Rp 100,000,000, - with an effective interest of 12% per year, and principal installments of Rp 10,000,000 per month. Then:

1st month the interest is  $1\% \times Rp 100,000,000 = Rp 1,000,000$

2nd month the interest is  $1\% \times Rp. 90,000,000 = Rp. 900,000$

The 3rd month the interest is  $1\% \times Rp. 80,000,000 = Rp. 800,000$  etc.

### **d. Banking**

According to (Kasmir, 2002) the bank is simply defined as an institution whose business activities are collecting funds from the community and channeling funds back

### **e. Bank Indonesia Regulation Number: 7/6 / PBI / 2005 concerning Transparency of Bank Product Information**

Whereas transparency of information about bank products is one of the efforts to improve good governance in the banking industry and empower customers, transparency of information about bank products is needed to provide clarity to customers regarding the inherent benefits and risks on bank products. Therefore, it is deemed necessary to regulate the transparency of bank product information, in a Bank Indonesia Regulation.

### **f. Bank Indonesia Regulation concerning Transparency of Bank Product Information In this Bank Indonesia Regulation what is meant by:**

Banks are Commercial Banks and Rural Banks as the Bank Office is the head office, branch offices, and offices under the branch office. Customers are parties who use bank services, including those who do not have an account but use Bank services to conduct walk-in customers.

Bank products are banking products and or services including non-bank financial institution products and services that are marketed by the Bank as marketing agents. Other Parties are parties outside the Bank, but not limited to parties who are in a business group with the Bank.

### **g. Explanation of Bank Indonesia Regulation Number: 7/6 / Pbi / 2005 concerning Transparency of Bank Product Information.**

The selection of bank products by customers is often more based on aspects of information about the benefits to be obtained from the bank's products. This is because in general information about bank products provided by banks, it has not explained in a balanced way the benefits, risks and costs inherent in a bank's product. Therefore, it is not uncommon to have disputes between banks and customers due to information gaps regarding bank product characteristics offered by the bank to customers. As a result, customer rights to obtain complete, accurate, current and complete information are not fulfilled. On the other hand, a lack of adequate information regarding bank products allows the occurrence of irregularities in banking business activities that can be detrimental

to customers so that transparency is needed regarding bank products to improve good governance in the banking sector.

### **C. RESEARCH METHODS**

#### **a. Approach and Type of Research**

This study uses a descriptive qualitative evaluative approach. Research that produces and processes descriptive data through illustration of a case to support the understanding of research formulation. The object of this research is focused on Islamic economic analysis reviewing the practice of transparency of effective flat banking installment systems. The steps of this research use the concept of qualitative research that starts from the background, the focus of the research is to develop an analysis description of a case with problems that can be presented in depth or case studies. This qualitative research will go through an analysis unit to study an event, program, activity in more than one individual. Data collection of this study uses various research instruments, such as interviews, observations, and documents. Data collection will be carried out using methods of observation, in-depth interviews and documentation of the subjects and research areas.

#### **b. Research sites**

In this study, the location of the research is carried out in several locations, namely customers of several banks in Ponorogo.

#### **c. Research Data Sources**

The data used in this study is primary and secondary data, the data are all statements of a person who is made as a respondent or those derived from documents both in the form of statistics or in other forms for the purpose of the research in question. Data obtained from both primary data sources and secondary data sources are then grouped into primary data and secondary data. The main data source in this study is the entire object of research consisting of human resources, objects, documents, Conventional Bank Customers in Ponorogo supported by opinions, photographs and other related documents.

Primary data sources are data sources that directly provide data to data collectors. In this study primary data, it is taken from conventional bank customers in Ponorogo supported by opinions, photographs and other related documents. Secondary data sources are sources that do not directly provide data to data collectors including data that has been processed and is ready, consisting of data on customer installments using an effective flat installment system of several conventional bank customers.

#### **d. Data Collection Technique**

The techniques used in the study are:

##### **1. Interview**

Interviews used are semistructural interviews conducted to provide questions to conventional bank customers, interviews need to be conducted as an effort to extract data from resource persons to obtain information and data directly and more accurately about the practice of transparency of effective flat installment systems in banks where customers borrow.

##### **2. Observation**

Observation is a method used by direct observation and systematic recording of the phenomena being investigated. Through this observation method the researcher will collect data related to the problems that the author carefully and the data sources that the writer encountered during the observation. Observations were made on conventional bank customers to find data on transparency practices of effective flat banking installment systems.

##### **3. Documentation**

In this study researchers used documents and recordings. In this study, researchers need customer profile data, recordings, and photographic documentation relating to the practice of transparency of effective flat banking installment systems.

#### **e. Data analysis technique**

Data analysis and data interpretation in accordance with the steps described in the data analysis method. Various findings can be used as a basis for analyzing Islamic economics on the application of bank transparency to customers. Researchers collected data that supports research instruments. Next the researcher analyzed the data needed to evaluate. Islamic economic analysis reviews the practice of effective banking flat installment system transparency

#### **D. DISCUSSION**

##### **a. Compliance with Bank Indonesia Regulation Number: 7/6 / Pbi / 2005 concerning Transparency of Bank Product Information**

Transparency of information about bank products is an effort to improve good governance in the banking industry and empower customers, transparency of information about bank products is needed to provide clarity to customers regarding the benefits and risks inherent in bank products.

Customers are parties who use bank services, including parties who do not have an account but use Bank services to conduct financial transactions. Bank products are banking products and or services including non-bank financial institution products and services that are marketed by the Bank as marketing agents. Banks are required to apply transparency of information regarding Bank Products. In applying transparency of information about products, Banks are required to establish policies and have written procedures. And the Bank's Directors are responsible for the implementation of transparency policies and procedures for information about the Bank's Products.

##### **b. Bank Product Information Transparency**

After getting information from customers in the field, the problem faced is the lack of clarity about the information disclosed by the bank to the customer. This concerns the problem of an effective flat installment system that has not been explained to the customer. This problem is as stated by customer A. Likewise, customer B also mentioned so. The customer C revealed that the installment system was explained but the penalty penalty imposed on the customer who paid off the debt before the stipulated period which was very burdensome to the customer was not explained from the beginning of this agreement also different from the Bank Indonesia Regulation Number: 7/6 / PBI / 2005 concerning Transparency of Bank Product Information and also Muamalah requirements which among others must be free from fraud and gharar.

Regarding transparency, Banks are required to provide complete and clear written information in Indonesian language regarding the characteristics of each Bank product. The information referred to in must be submitted to the Customer in writing and or verbally. In providing information as intended in the Bank, it is prohibited to provide misleading and / or unethical (misconduct) information.

Information regarding the characteristics of Bank Products as referred to in Article 4 at least includes:

- a. Bank Product Name
- b. Bank Product Type
- c. Benefits and risks inherent in Bank Products
- d. Requirements and procedures for using Bank Products
- e. Costs attached to Bank Products
- f. Interest calculation or profit sharing and profit margin
- g. The period of validity of a Bank Product
- h. Bank Product issuer / originator

The Bank is obliged to notify the Customer of any changes, additions, or deductions to the characteristics of the Bank's Products. Notification must be submitted to each Customer who is utilizing Bank Products no later than 7 (seven) working days prior to the entry into force of changes, additions or reductions in the characteristics of the Bank's Products. The Bank should not include information and or information regarding the characteristics of Bank Products whose location and or form are difficult to see and or cannot be read clearly and or whose disclosure is difficult to understand.

#### **E. CONCLUSION**

1. The application of the principle of transparency conducted by the Bank in general has not been in accordance with Bank Indonesia regulation Number: 7/6 / PBI / 2005 concerning the transparency of bank product information in its delivery to the customer. The Bank still cover up what should be delivered to the customer, so that the customer feels nothing happen. This happen may be customer's fault who do not really pay attention bank's term and conditions.
2. Obstacle tfactors in applying the Transparency Principle in Indonesian bank regulations Number: 7/6 / PBI / 2005 concerning transparency of bank product information, namely the lack of knowledge of the customers about the installment system they must understand when transacting with a bank. Customers who are less concerned about an implementation procedure or applicable regulations.

#### **F. SUGGESTION**

1. The Bank is obliged to notify the Customer of any changes, additions, or reductions in the characteristics of the Bank's Products. Notification must be submitted to each Customer who is utilizing Bank Products no later than 7 (seven) working days prior to the entry into force of changes, additions or reductions in the characteristics of the Bank's Products.
2. The Bank should not include information and or information regarding the characteristics of Bank Products whose location and / or form are difficult to see and or cannot be read clearly and or whose disclosure is difficult to understand.

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