



TRANSFORMATION OF SHARIA FINANCIAL INSTITUTIONS THE CASE OF ACEH: POLITICS, STRATEGY AND IMPLEMENTATION

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Abstract: Aceh Special Region Government Authority which carried out mass transformation of conventional financial institutions in Aceh. Based on Aceh Qanun Number 11 of 2018 concerning Sharia Financial Institutions, conventional financial institutions are given 3 years from 2019-2022 to transform conventional financial institutions into Islamic financial institutions. The results of empirical-normative research, data sourced from interviews and observations, and sourced from normative data, namely Qanun Aceh Number 11 of 2018 concerning Sharia Financial Institutions. The approach used is legislation, case study approach, and conceptual approach. This research states that the transformation of financial institutions stems from the philosophy of culture and community life that adheres to the Quran and Sunnah. This philosophy is realized through strengthening legal politics in the form of Aceh Qanun Number 8 of 2014 and Aceh Qanun Number 11 of 2018.

Keywords: Transformation; Islamic Financial Institutions; Strategy and Actual Application

Abstrak: Otoritas Pemerintah Daerah Istimewa Aceh yang melakukan transformasi masal kelembagaan keuangan konvensional di Aceh. Berdasarkan Qanun Aceh Nomor 11 Tahun 2018 tentang Lembaga Keuangan Syariah, lembaga keuangan konvensional diberikan waktu selama 3 tahun sejak tahun 2019-2022 untuk melakukan transformasi kelembagaan keuangan konvensional menjadi lembaga keuangan syariah. Hasil penelitian empiris-normatif, data bersumber dari wawancara dan observasi serta bersumber dari data normatif yaitu Qanun Aceh Nomor 11 tahun 2018 tentang Lembaga Keuangan Syariah. Pendekatan yang digunakan ialah perundang-undangan, pendekatan studi kasus, dan pendekatan konseptual. Penelitian ini menyatakan transformasi kelembagaan keuangan bersumber dari falsafah budaya dan kehidupan masyarakat yang berpegang teguh kepada Al-Quran dan Sunnah. Falsafah tersebut diwujudkan melalui penguatan politik hukum dalam bentuk Qanun Aceh Nomor 8 tahun 2014 dan Qanun Aceh Nomor 11 Tahun 2018.

Kata Kunci: Transformasi; Lembaga Keuangan Syariah; Strategi dan Aktual Aplikasi

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Introduction

The Islamic economy is experiencing very rapid development in the world, as well as in Indonesia. The development of an implementable Sharia economy can be seen in the many financial institutions that use the principles of Islamic Sharia.¹ According to Islamic Financial Services Board data, 2019 cited by Filomeni Stefano, the growth of the Islamic financial services industry over the past two decades has been substantial with a current market valuation of \$2.2 trillion globally.²

The progress of these Islamic financial institutions, indeed, starts from the awareness and desire of the people who are looking for the best solution for an economic system. This can also be seen in Md Saifullah's research explaining the efficiency of the financial stability of Islamic and conventional banks. The research uses the meta-frontier stability function approach based on the stochastic frontier framework to estimate the efficiency of the financial stability of the two groups of banks, by taking samples of Islamic and conventional banks from 28 countries during the 2003–2018 period. The results of his research show that Islamic banks have a stability efficiency of 5.30% higher than conventional banks.³ Furthermore, the spectacular development of Islamic banking in many Islamic countries makes it relevant and timely for researchers to have a good understanding of its effect on economic growth in different financial development environments in each country.⁴ This illustrates that the aim of this previous research is the fact that Islamic banking is stronger and immune from problems. Both financial problems from monetary, financial, and other crises, as well as providing a positive effect on the country's economic growth.

Indonesia has experienced a process of stable and rapid sharia economic development since the emergence of sharia banking. In addition to these developments, some scholars argue that Islamic banking does not fully fulfill the main obligations of Islam, such as ethics or using sharia principles.⁵ Even though the sharia economic system in Indonesia in the form of financial institutions has been realized by applying sharia principles. This does not mean that there are no problems or obstacles in various problems in its development.⁶ These issues include the issue of market share (customers) of Islamic financial institutions, which seems to still be in the same scope as Islamic banks. The lack of optimization of the development of non-bank financial institutions, especially in remote areas, shows that some people believe that the current system of several Islamic

¹ Nurul Ichsan Hasan, *Perbankan Syariah (Sebuah Pengantar)*, (Jakarta: GP Press Group, 2014), h. 104.

² Seng Kiong Kok And Stefano Filomeni, "The Holding Behavior Of Shariah Financial Assets Within The Global Islamic Financial Sector: A Macroeconomic And Firm-Based Model," *Global Finance Journal* 12, (2020): 3.

³ Md Safiullah, "Financial Stability Efficiency Of Islamic And Conventional Banks," *Pacific Basin Finance Journal* 68, no.1 (2021): 2.

⁴ Walid Mensi, Shawkat Hammoudeh, Aviral Kumar Tiwari, And Khamis Hamed Al-Yahyaee, "Impact Of Islamic Banking Development And Major Macroeconomic Variables On Economic Growth For Islamic Countries: Evidence From Panel Smooth Transition Models," *Economic Systems* 44, no. 1 (2020): 44.

⁵ Zulfahmi Alwi, Rika Dwi Ayu Parmitasari, And Alim Syariati, "An Assessment On Islamic Banking Ethics Through Some Salient Points In The Prophetic Tradition," *Helikon* 7, no. 5 (2021).

⁶ Ahmad Dakhoir, *Hukum Syariah Compliance Di Perbankan Syariah*, (Yogyakarta: K-Media, 2017), h. 2.

financial institutions is not much different from the traditional financial system which is still problematic. Islamic Economics Faces Challenges.⁷

Interestingly, from various areas in Indonesia, one of the provinces on the island of Sumatra, precisely in Aceh. Take firm steps to syariahize all financial institutions. This is mainly because Aceh has a strong basis for implementing the Islamic system in its social life, including in terms of the economy. This research can also help understand the political, economic, and social factors that influence the transformation of conventional financial institutions into sharia financial institutions in Aceh, as well as the challenges and opportunities that arise from this transformation.

Interestingly, from various regions in Indonesia, one of the provinces on Sumatra Island is precisely Aceh. Take firm steps to syariahize all financial institutions. This is mainly because Aceh has a strong foundation in implementing the Islamic system in social life, including in the economic sector. This research can also help understand the political, economic, and social factors that influence the transformation of conventional financial institutions into sharia financial institutions in Aceh, as well as the challenges and opportunities that arise from this transformation. Previous research study carried out in a dissertation written by Deddy Nofendy, the decision to convert was the result of several considerations, including the implementation of Islamic Sharia in Aceh so that the existence of conventional banks was not in line with Islamic Sharia. Support from regulators, namely OJK and Bank Indonesia, also makes the conversion process easier because many things must be adjusted so that the conversion process can run.⁸

Next is the book from the research results of M. Shabri Abd. Majid, Qanun LKS Aceh is an Islamic regulation that aims to provide prosperity and justice to the people of Aceh through Sharia principles. Sharia Financial Institutions based on Aceh Qanun No. 11 of 2018 have the main objective, namely realizing an Islamic economy in Aceh, becoming a driver of economic growth, and supporting Sharia principles in financial functions.⁹

This is an effort from the literature that has been carried out by previous researchers, which explains from previous studies that the implementation of the Islamic Financial Institutions (LKS) Qanun regulations has an impact on conventional banking so that it can fully transform into a sharia financial institution. Various efforts have been made. Various efforts have been made, not only through market expansion but also through strategic political steps and regional authority. One such effort is what happened in Aceh, Indonesia. The idea of transforming conventional financial institutions into Islamic financial institutions is contained in the Aceh Qanun special regulation Number 11 of 2018 concerning Islamic Financial Institutions which was ratified on January 4, 2019. This Qanun states that all Financial Services Institutions (LJK) in Aceh Province must

⁷ Ahmad Dakhoir, "The Fatwa Authorities Of National Syaria Council Of Majelis Ulama Indonesia In Supporting The Principle If Syariah Compliance," *Journal Of Legal, Ethical And Regulatory Issues* 22, no. 1 (2019): 2.

⁸ Deddy Nofendy, *Analisa Strategi Konversi PT. Bank Aceh Syariah*, (Sumatera Utara: Universitas Islam Negeri Sumatera Utara, 2020).

⁹ M. Shabri Abd Majid, Ghrina Zikran, Maulidar Agustina, Maulana Kamal, Dan Nazaruddin A Wahid, *Optimalisasi Peran Lembaga Keuangan Syariah Dalam Peningkatan Perekonomian Aceh Yang Bebas Riba: Analisis Penguatan Implementasi Qanun Aceh No. 11 Tahun 2018 Tentang Lembaga Keuangan Syariah*, Dinas Syariat Islam Aceh, (Aceh: Dinas Syariat Islam Aceh, 2022).

adhere to sharia principles. According to Khairul Fuady, one of the observers of Islamic Economics, conveyed:

“The Qanun on Aceh's Islamic financial institutions has been approved and ratified, so all financial institutions operating in Aceh, including banks, must become Islamic financial institutions. This of course will greatly encourage the development of Islamic banking, especially the development of Islamic financial institutions.”¹⁰

The change of all banks in Aceh to become Islamic banks will have an impact on increasing the market share of Islamic banking nationally. This is also explained in his journal by Syed Aun R. Rizvi, et al. The variable share of Islamic banking is a proxy for the role of Islamic banks. His paper finds a negative and statistically significant effect on the share of Islamic banking with loan loss provisions as a measure of stability, indicating that with an increasing share of Islamic banking in Indonesia, the stability of the banking sector is increasing.¹¹ The contribution of LKS is expected to reach 1% so that the national Sharia banking market share which has now reached 5.7% can penetrate above 6%.

This article aims to provide an overview of the transformation process of financial institutions in Aceh, with a focus on political aspects, strategies, and implementation in realizing a comprehensive Sharia financial institution. The main objective of this article is to review the role of Qanun authorities in encouraging and regulating the transformation of Sharia financial institutions in Aceh, as well as evaluating the impact resulting from this transformation. Hopefully, this article can be a valuable reference in describing the role model of implementing Qanun in achieving the kaffah application of Islamic law. This article involves a qualitative, descriptive approach. The data used in this research consists of policy analysis and relevant historical data related to the transformation of Islamic financial institutions in Aceh. Various data sources used include official Qanun documents, police reports, interviews with Sharia economic experts, and analysis of related literature. A qualitative approach was used to gain an in-depth understanding of the role of Qanun authority in the transformation process, as well as the impacts that have occurred. These data are analyzed comprehensively and contextually to provide an in-depth understanding of the transformation of Islamic financial institutions in Aceh

This is a positive impact of the transformation or revolution implemented by the Aceh government in implementing its policies. The theory of revolution relates to a change that takes place quickly and concerns the basics or principles of life, which was implemented by the Aceh government to immediately revolutionize policies related to Sharia financial institutions. In transformation theory regarding change, namely changes to a thing or situation, especially in terms of form, transforming all forms of financial institutions into sharia. As well as using the theory of authority, Abou el Fadl tries to construct the idea of authority holders in Islamic discourse, especially the implementation of the Qanun in achieving the kaffah application of Islamic law. It is hoped that this will increase the market share of Sharia banking both in Aceh and nationally.

¹⁰ Lida Puspaningtyas, “Qanun Aceh Bisa Tambah Pangsa Pasar Perbankan Syariah,” <https://www.republika.co.id/berita/ekonomi/syariah-ekonomi/ppz884383/qanun-aceh-bisa-tambah-pangsa-pasar-perbankan-syariah>, (20 Januari, 2021).

¹¹ Syed Aun R. Rizvi, Paresh Kumar Narayan, Ali Sakti, And Ferry Syarifuddin, “Role Of Islamic Banks In Indonesian Banking Industry: An Empirical Exploration,” *Pacific Basin Finance Journal* 62, (2020): 101.

In addition, the LKS will include other Sharia law institutions such as insurance and cooperatives. These forecasts will have to wait in stages to see the overall impact. This regulation has had a significant impact on the development of LKS throughout the country in the form of reforms to traditional financial institutions. The breakthrough of the Aceh Qanun in Sharia financial institutions is a milestone for the Indonesian state to be more friendly and respectful in its macroeconomic policies to implement the Islamic Sharia economy in a kaffah (thorough) manner, providing great opportunities for today's global Sharia economy and finance.

According to this background, the aim of writing this article is to understand the political, economic, and social factors that influence the transformation of conventional financial institutions into sharia financial institutions in Aceh, as well as the challenges and opportunities that arise from this transformation. The author focuses on policies and road maps for the development of Sharia banking in Indonesia, especially in Aceh. Understand the changes to the Qanun LKS and their impact on the implementation of Sharia banking in Aceh, examine the role of economics and Islamic law in regulating economic activities in Aceh, and examine the reasons for rejecting conventional banking in Aceh and the importance of its implementation. sharia banking in the regions, and analyzing the dynamics of the formation of Qanun LKS and its impact on the implementation of sharia banking in Aceh.

This research is empirical normative research. Initial research used empirical field data, and was continued by reviewing literature data and normative,¹² data such as Aceh Qanun Number No. 11 of 2018 concerning Sharia Financial Institutions.¹³ Empirical data was obtained through in-depth interviews and direct observation in Aceh, Indonesia. The research approach used regarding the transformation of conventional financial institutions into sharia financial institutions in Indonesia requires a statutory approach, a case study approach, and a conceptual approach.¹⁴ The theory used in this paper is Khaleed Abou El Fadl's theory of authority (Coercive authority is the act of forcing another party to behave spontaneously by using threats, rewards, pretexts or intimidation, and other methods. Meanwhile, Charismatic authority is authority based on exemplary values, and charisma, instilling maturity and strengthening the faith of the people).¹⁵

Result And Discussion

Existing Conditions Of Financial Institutions In Aceh

At present, Aceh is carrying out a major overhaul in regulating the financial institution system. Aceh has passed Qanun Regulation Number 11 of 2018 which contains financial institutions. For the people of Aceh, the Sharia economic system is a necessity for the welfare of the people. This Qanun itself is a regulation that states that: "Under the auspices of Islam, laws and regulations govern the activities of financial institutions in the framework of creating a just and prosperous Aceh economy." This is a follow-up to Qanun Aceh Number 8 of 2014 which contains the basics of Islamic law. The basic principles of these principles require that all financial institutions in Aceh are supported by Islamic law

¹² Bambang Sunggono, *Metodologi Penelitian Hukum*, (Jakarta: Rajawali Press, 2012), h. 11.

¹³ Soerjono Soekanto Dan Sri Mamudji, *Penelitian Normatif*, (Jakarta: Rajawali Press, 2010), h. 113.

¹⁴ Peter Mahmud Marzuki, *Penelitian Hukum*, (Jakarta: Kencana, 2010), h. 94.

¹⁵ Angus M. Slater, "Khaled Abou El Fadl's Methodology Of Reform," *Journal Of Law, Religion And State* 4, no. 3 (2016): 293–321.

and must also be based on Islamic legal principles. All financial institutions in the Aceh region must immediately comply with all of these regulations within 3 years starting from January 4, 2019, their financial institutions must operate with an Islamic economic system. The financial institutions involved are banking financial institutions, especially conventional banks and other conventional financial institutions in the Aceh region. The authority of the Sharia financial system applies to all people, both Muslims and non-Muslims who carry out financial transactions in Aceh, as well as Sharia and conventional financial institutions both inside and outside Aceh that carry out financial transactions in Aceh. Not only that, violations of Qanun Aceh Number 11 of 2018 concerning Islamic Financial Institutions will receive sanctions in the form of administrative sanctions according to the level of violation. Fundamental institutional changes that Islamic financial institutions have advantages are not only halal and free from ribawi practices but can survive and have benefited all parties. The Islamic financial institutions that are carried out according to Islamic law in absolute terms are of course the soul of the nation of Acehnese people, who are diverse in Islam.¹⁶

Arguments For The Transformation Of Islamic Financial Institutions In Aceh

Philosophical argumentation of the transformation of Islamic financial institutions in Aceh

Enforcement of Aceh Qanun Number 11 of 2018 concerning Islamic Financial Institutions is not as easy as imagined. At the applicative level, the sharia values in the Qanun have raised pros and cons so that they often receive claims that the application of Islamic sharia in the world of muamalah is difficult to implement and is still far from expectations. The hope of implementing Shari'a comprehensively is not something easy, especially since the tendency of the era of globalization and high Islamophobia has demanded wisdom, tolerance, and togetherness. This is exacerbated by the many campaigns that corner Islam with false accusations. This creates Islamophobia and causes people to leave Sharia as a guideline in their lives.¹⁷ This is a challenge in itself for the province of Aceh to be able to synergize between the aspects of worship and muamalat in the implementation of Islamic law, the need for Islamic Politics to synergize them. Political Islam, according to Montgomery Mcfate notes that it found devotion and rejection of the world accompanying their innovations, but it was also met with bigotry and hatred. This passion gave birth to a constant religious revival with political Islam.¹⁸

One of the philosophical foundations, of the transformation of Islamic financial institutions in Aceh is the desire for an Islamic system in all aspects of people's lives. The people of Aceh, which are dominated by Muslims, have great expectations of the ideals of implementing Islamic law as a whole. This view was conveyed by a member of the Aceh

¹⁶ Muhar Afrizal, "Transformasi Bank Konvensional Ke Bank Syariah Di Aceh," <https://www.kompasiana.com/muharafrizal/5f3646bc097f36180c7c8072/transformasi-bank-konvensional-ke-bank-syariah-di-aceh>, (21 Desember 2022).

¹⁷ Marjaana Jauhola, *Scraps Of Hope In Banda Aceh: Gendered Urban Politics In The Aceh Peace Process*, (United Kingdom: Helsinki University Press, 2020).

¹⁸ Montgomery Mcfate, "A Military Anthropologist Looks At Islamic Insurgency In Aceh," *Orbis* 62, no. 4 (2018): 632–54.

Sharia Court, namely Abdul Latif, that Muslims in Aceh certainly do not only carry out aspects of worship but also muamalah activities must also be implemented and carried out by Islamic law, which indicates that Islamic law rules must be implemented. as a whole, whether it's worship or muamalah activities.¹⁹ This was further reinforced by Syahrizal Abbas, professor at Ar Raniry Aceh State Islamic University who stated philosophically that Muslims in Aceh need to apply Islamic law, not only in the material aspects of worship and jinayah. Every Muslim who believes in Islamic teachings must fulfill all the teachings of the Qur'an in his life.

These various views indicate that the philosophy of life of the Acehnese people hopes that the Aceh region can apply sharia laws widely not only in aspects of worship, and criminal law but also in muamalah issues. In this context, the existence of Islamic values in the life of the people of Aceh is substantive, so when they are transformed into life values, they will face challenges to Islam because of the diversity of thoughts and breadth of insight into the basic meaning of Islamic law itself. The province of Aceh paints a rather specific picture, in which religion plays an important role. When mentioned in international circles, the province of Aceh today is often associated with its strong Islamic identity and its adaptation to Sharia law.²⁰

Related to this, the philosophical aspect as a basis for thinking for the transformation of Islamic financial institutions as a whole, believing that the truth of Islamic religious teachings, and the obligation to fulfill all the teachings of the Al-Quran and Sunnah in the life of the people of Aceh is a fixed price. For the people of Aceh, the existence of Islamic law is a guideline and solution for human life and educates people to be pure inside and out. Laws and regulations governing the activities of Sharia-compliant financial institutions are an option in guaranteeing the realization of a just and prosperous Acehnese economy under the auspices of Islam.

Sociological argumentation of the transformation of Islamic finance institutions in Aceh

Sociologically, the transformation of Islamic financial institutions in Aceh cannot be separated from the large number of Muslims in Aceh. Based on the 2019 Central Bureau of Statistics report, the population of Aceh is 5371532 people.²¹ This number consists of Muslims totaling 98.19%, Christians 1.12%, Catholics 0.07%, Buddhists 0.16%. The existence of the majority Muslim community and the desire to fully implement Islamic teachings is the background for the birth of Law No. 44 of 1999 concerning the Privileges of the Special Province of Aceh and Law No. 18 of 2001 concerning the Special Autonomy of the Province of the Special Region of Aceh as the Province of Nanggroe Aceh Darussalam.

The social behavior of the Acehnese people who practice Islamic law as a whole then becomes a social norm that cannot be separated from the norms of values that apply

¹⁹ Abdul Latif, Wawancara Pribadi, (21 Februari 2021).

²⁰ Ritesh Shah And Mieke Lopes Cardozo, "Education And Social Change In Post-Conflict And Post-Disaster Aceh, Indonesia," *International Journal Of Educational Development* 38, (2014): 7.

²¹ Badan Pusat Statistik Republik Indonesia, "Jumlah Penduduk Provinsi Aceh Menurut Kabupaten/Kota Tahun 2017-2019," <https://aceh.bps.go.id/statictable/2020/02/24/247/jumlah-penduduk-provinsi-aceh-menurut-kabupaten-kota-tahun-2017-2019-.html>, (10 Maret 2022).

in a society, it can even be said that the law is a reflection of the values prevailing in society at that time. The basic values and lofty goals of implementing Islamic law in Aceh are derived from the long history of the people of Aceh. Here the local values of the Acehese people can be adopted by various Qanuns as a concrete form of translating Islamic Sharia in Aceh. This is in the perspective of legal politics according to Ibnu Elmi that reflects the norms of religious values in society, namely as a new political tradition to strengthen ethnic and religious identities in the reform era and a manifestation of the desire of local communities to get support from these rules.²² Interpretation of local values will shape the implementing rules of Islamic Shari'a which are contextually characteristic of Islamic law at the level of implementation and accommodated in an open and democratic framework. This is similar to what was expressed by Abdul Latif:

*If we talk about the people of Aceh, the element of religiosity is very strong here, because Islam has been dominated from a religious point of view. So Islam here is rooted in Acehese culture and Islam is also the way of life for the people of Aceh.*²³

From this statement, the sociological conditions of the people of Aceh have accommodated Islamic teachings thickly. Islamic religious teachings become a way of life and crystallize in a system, institution, and social structure which in turn manifests into a worldview.²⁴ The importance of religion has proved to be a very important foundation in religious practice for contemporary organizational forms,²⁵ even in it transformed into a way of life. The socio-cultural aspect of Aceh is built based on religion and this tradition which forms a basis for the social arrangements that take place in Aceh. The existence of the Ulama is a manifestation of the existence of religious pillars and norms which have played a very important role throughout history in Aceh.

The attachment of the Ulama, especially within the MUI nationally and also specifically the Ulama Consultative Assembly (MPU) in Aceh with the Sharia economic project is also growing stronger. This development highlights the fact that interactions between Islamic economic movements, and processes between Islamic economic movements of the State are very fundamental in paving the way for Islamic economic movements to influence decision-making.²⁶ So Islam is a way of life and a fundamental Acehese traditional culture that has the fighting power to reach the future.

Concerning Sharia financial institutions in Aceh, in an established manner, they discovered a new history when the founding of Bank Aceh through a meeting of the resolutions of the Extraordinary General Meeting of Shareholders (EGMS) on May 25 2015 that Bank Aceh changed its operational system entirely to the sharia system. This was conveyed by the Director of Sharia and HR of Bank Aceh, Haizir Sulaiman stated:

²² Ibnu Elmi As Pelu, "The Conferment Of Customary Dayak Title In Central Kalimantan: Authority And Legal Implications," *Journal Of Legal, Ethical And Regulatory Issues* 23, no. 5 (2020): 1–9.

²³ Latif, Wawancara Pribadi, (Februari 2021).

²⁴ Sri Astuti, "Agama, Budaya Dan Perubahan Sosial Perspektif Pendidikan Islam Di Aceh," *Jurnal Mudarrisuna: Media Kajian Pendidikan Agama Islam* 7, no. 1 (2017): 27.

²⁵ Samir Alamad, Nunung Nurul Hidayah, And Alan Lowe, "A Shared Boundary Object: Financial Innovation And Engineering In Islamic Financial Institutions," *British Accounting Review* 53, no. 3 (2021): 1.

²⁶ Shofwan Al Banna Choiruzzad And Bhakti Eko Nugroho, "Indonesia's Islamic Economy Project And The Islamic Scholars," *Procedia Environmental Sciences* 17, (2013): 965.

"The data obtained from the results of a survey conducted in Aceh Province, to be precise, in 13 districts, shows that almost 97% of the people of Aceh do not mind and will remain, Acehnese bank customers, even if they completely switch to the Islamic banking system. "It is understandable that the people of Aceh, who have been customers of state-owned banks, will continue to entrust their funds to be kept in Islamic banks that fully adhere to Islamic financial principles."²⁷

This indicates that the majority of Acehnese people strongly agree with the transition from conventional financial institutions to Islamic financial institutions. The social phenomenon of the voices of the majority of people who agree with the transformation of Islamic financial institutions is welcomed by the Aceh Provincial government through the Aceh Islamic Sharia Office. This is also reinforced by previous research which was outlined in the form of a research book by EMK Alidar, Muhammad Maulana who explained that the LKS Qanun is a policy that is highly expected by all levels of society even though there is also a small portion of the Acehnese people who do not agree with the implementation of this Qanun.²⁸

The rules that previously regulated the basics of Islamic Sharia Qanun Aceh Number 8 of 2014 which contained rules regarding the basis of Islamic Sharia were then emphasized again by the rules of Qanun Aceh No. 11 of 2018 which required all financial institutions in Aceh Province to become Islamic financial institutions.²⁹

Juridical Arguments For The Transformation Of Islamic Financial Institutions In Aceh

The juridical basis is the legal basis contained in a law that has been formalized by an authorized institution. The province of Aceh has special authority to freely implement Islamic law as a whole in its territory. This is by Law Number 44 of 1999. The existence of the Special Region of Aceh was based on the Decree of the Prime Minister of the Republic of Indonesia Number I/Missi/1959 concerning the special region of Aceh Province covering religion, civilization, and education, then this decision was strengthened by the issuance of Law Number 22 of 1999. 1999 concerning Regional Government. The legality of Aceh's privileges is supported by the role of the ulama in determining the direction of Regional policies, to follow up on this matter related to Aceh's specialties it is deemed necessary to compile the implementation of Aceh's specialties in a law.

Legally politically, the Law governing the implementation of the Privileges of the Province of Aceh aims to provide a basis for the province of Aceh in regulating special regional policies in Aceh. The Special Region of Aceh is given freedom in terms of regulating key matters so that regional policies are more accommodating to the

²⁷ Nur Aini, "Nasabah Bank Aceh Setuju Beralih Ke Syariah," <https://republika.co.id/berita/ekonomi/syariah-ekonomi/16/05/25/o7piyk382-nasabah-bank-aceh-setuju-beralih-ke-syariah>, (25 Oktober 2022).

²⁸ EMK Alidar Dan Muhammad Maulana, "Peluang Dan Tantangan Penerapan Qanun Nomor 11 Tahun 2018 Tentang Lembaga Keuangan Syariah Di Aceh," *Jurnal Penelitian Pendidikan Guru Sekolah Dasar* 6, (2016), 9.

²⁹ Dewan Syariat Islam, "Qanun Aceh Nomor 8 Tahun 2014 Tentang Pokok-Pokok Syariat Islam" (2014).

aspirations of the local people.³⁰ This accommodative policy has been implemented in Aceh Province as part of the politics of Islamic law in the region.

Legal Political Point from a juridical aspect by considering the national legal system, namely, the extent to which a country implements Sharia principles and examines the effect on the financial health of Islamic banks. Given that politics and the legal system are closely intertwined, to some extent the effects of the political system.³¹ Research from Marwan Izzeldin, et al explains that Regulators and judicial authorities play an important role and are tasked with designing mechanisms and platforms that explain the identity of both Islamic and conventional banking models, especially for incorporating economic activities into Islamic Sharia rules.³²

In general, the legality of Aceh's privileges in implementing Islamic law is included in the field of muamalah and sharia finance, and the implementation of Islamic law has been defined comprehensively, intact, and flexibly, that is, it covers all of its teachings. Therefore, this law provides a complete understanding, including worship, mu'amalat, jinayat, munakahat, and others. Islamic law includes faith and morals as well as all teachings and guidance in various other fields. In addition, the Qanun and various regulations formulated in the Aceh region apply to Muslims in Aceh, so that the Acehnese people obtain permission to implement or implement Islamic law in the life of the Acehnese people. In addition to the fields of education, life, and customs, Aceh also focuses on Islamic law in the economic sector. The economic sector, especially in the financial sector, refers to Law Number 11 of 2006 concerning the Government of Aceh (UUPA), which stipulates that Aceh is the same as Sharia law. Then from there the Aceh Qanun No. 8 of 2014, states that Aceh's financial practices are based on Sharia law. Qanun No. 8 of 2014 was later strengthened in Qanun No. 11 Aceh concerning Islamic Financial Institutions of 2018. This order stipulates that when this order comes into force, financial institutions operating in Aceh must comply with this order no later than 3 years from the date of this order.³³ This means that starting in 2022, all financial institutions in Aceh must apply Sharia financial principles. This has become the legality of the mass transformation of Islamic financial institutions in Aceh.

³⁰ Abu Bakar Al-Yasa', *Syariat Islam Di Provinsi Aceh Darussalam*, (Banda Aceh: Dinas Syariat Islam, 2005), 41.

³¹ Mohammad Bitar, M. Kabir Hassan, And Thomas Walker, "Political Systems And The Financial Soundness Of Islamic Banks," *Journal Of Financial Stability* 31, (2017): 18.

³² Marwan Izzeldin, Jill Johnes, Steven Ongena, Vasileios Pappas, And Mike Tsionas, "Efficiency Convergence In Islamic And Conventional Banks," *Journal Of International Financial Markets, Institutions And Money* 70, (2021).

³³ Dinas Syariat Islam, "Qanun Aceh Nomor 11 Tahun 2018 Tentang Lembaga Keuangan Syariah," (2018).

Strategy And Action For Transforming Islamic Financial Institutions In Aceh

Strategy is to be used as the general form of a plan, concept, action, or vision of direction taken by individuals, organizations, and governments, whether at the regional, state, or state level.³⁴ Strategies for creating the desired goals include strategies in the field of juridical or legal policies in the Aceh Qanun regulations regarding Islamic financial institutions. Transformation is a policy process of making changes. Meanwhile, the output of change is the presence of differences, the presence of new characteristics and identities, always reflecting historical differences in conditions.³⁵ Transformation of Islamic financial institutions or Islamic financial institutions is a form of financial institution that operationally uses Islamic principles. Furthermore, operationally Islamic financial institutions must avoid elements of maghrib, namely maysir, gharar, usury, and those that are not by the principles of mu'amalah. The legitimacy of Islamic financial institutions in Qanun Aceh No 11 of 2018 has gone through a series of stages.

The first is the introductory stage. At this stage, the strategy and direction of Islamic economic policy began in 1992, namely the promulgation of Law Number 7 of 1992 concerning Banking. This law introduced banks based on the principle of profit sharing and was later supported by Government Regulation Number 72 of 1992 concerning banks based on the principle of profit sharing. According to Article 12 paragraph 1 of Law Number 7 of 1992, credit is based on an agreement or loan agreement between the bank and another party which obliges the borrower to pay off the debt at a later date and provide money or creditor rights equivalent to that. The amount of interest, compensation, or profit-sharing within a certain period. This provision shows that Indonesia has introduced a form of credit that is not based on an interest system but on other forms of compensation and profit sharing. In this era, banks can only carry out one type of activity by convention or on a profit-sharing basis. This provision can be seen from Article 1 of Government Regulation No. 72 of 1992 which explains that Islamic banks that use the profit-sharing principle are commercial banks or people's credit commercial banks that carry out their business based on the profit and loss-sharing principle.

For the province of Aceh, this introduction stage became the forerunner for discussions on purifying the system and transforming Islamic financial institutions in all sectors. To support this, Aceh subsequently issued a Regional Regulation of the Special Region of Aceh Number 5 of 2000 regarding the Implementation of Islamic Sharia. This rule in chapter IV states that Islamic Shari'a procedures cover the fields of aqidah, worship, mu'amalah, morals, education and Islamic da'wah/amar ma'ruf nahi mungkar, baitulmal, community, qadha, jinayat, munakahat, Mawaris. More specifically in the implementation of Islamic law in the field of muamalah, it is stated in Article 10, that:

³⁴ Agus Hartanto And Nur Fatwa, "The Geostrategy Of Sharia Banking Merger In Indonesia," *Scientific Research Journal (SCIRJ)* 8, (2020): 60.

³⁵ Ernita Dewi, "Transformasi Sosial Dan Nilai Agama," *Substantia: Jurnal Ilmu-Ilmu Ushuluddin* 14, (2012): 113.

(1) *The Regional Government regulates, orders, and supervises the implementation of everything related to muamalah in public life according to the provisions of Islamic Sharia.*

(2) *The implementation of everything related to muamalah is further regulated by a Governor's Decree.*³⁶

With the birth of Aceh Regional Regulation No. 5 of 2000 concerning the Implementation of Islamic Shari'a which is the first step in enforcing Islamic Shari'a in the field of muamalah and sharia finance.

Second, namely the identification/recognition stage. At the recognition stage, Law Number 10 of 1998 was promulgated which contained amendments to the Banking Law Number 7 of 1992. The ratification of this law was the government's response to the financial and currency crisis which had greatly affected the banking industry. Indonesia. Regarding the Islamic banking industry, Law No. 10 of 1998 acknowledges its existence. This can be seen from the definition of commercial banks and people's credit banks. Commercial banks are banks that conduct business activities traditionally and/or based on Sharia principles, as well as provide payment flow services in their activities. Even though BPRs are banks that carry out business activities in the traditional way or accordance with the principles of Sharia law, they do not provide payment services in bank payment traffic.³⁷ Based on this, it indicates that Indonesia adheres to a dual banking system as previously stated.

Indonesia has adopted a dual banking system in which conventional banks and Islamic banks operate. To strengthen the role of Islamic banking in the intermediation system, the government issued Islamic Banking Law No. 21/2008 to encourage Islamic Window conventional banks to become legal entities separate from their parent companies or spin-off. Since the Islamic Window policy has played a role in the development of Islamic banks, this can be seen by using a difference-in-differences approach to examine the effect of the spin-off on the performance, efficiency, and risk of Islamic banks. The study covers all Sharia commercial banks (including conventional bank Sharia windows) in Indonesia from 2008 to 2019. It was found that the conversion strategy yielded better results, especially for profitability and efficiency.³⁸ This was also reinforced by Sri Ulina's findings through the paired t-test, the decline in Islamic banking performance from the pre-2008 Global Financial Crisis (KKG) to the post-2008 KKG period was significantly smaller than conventional banking counterparts. This shows that the superiority of Islamic banks over conventional banks is due to fair and just practices based on Islamic principles. Because of their reliability in dealing with crisis episodes, Islamic banks deserve strong support from the government by increasing prudent Islamic banking regulations. Islamic banks should strive to operate fully based on Islamic principles and

³⁶ Dinas Syariat Islam, "Peraturan Daerah Provinsi Daerah Istimewa Aceh Nomor 5 Tahun 2000 Tentang Pelaksanaan Syariat Islam," (2000).

³⁷ Peraturan Presiden Republik Indonesia, "Pasal 1 Angka (3) Dan (4) Undang-Undang Nomor 10 Tahun 1998 Tentang Perbankan," (1998).

³⁸ Irwan Trinugroho, Wimboh Santoso, Rakianto Irawanto, And Putra Pamungkas, "Is Spin-Off Policy An Effective Way To Improve Performance Of Islamic Banks? Evidence From Indonesia," *Research In International Business And Finance* 56, (2021).

better banking risk management.³⁹ In line with the findings of M. Kabir Hassan, his findings show that Islamic banks have a higher solvency position than commercial banks of the same size. However, recent stability measure relationship studies show that Islamic banks should grow their size because they can be stable when strict regulations, monitoring, and supervision are implemented or shariah compliance is adhered to.⁴⁰

Financial institutions in Aceh at this stage have used Sharia principles, especially in state-owned banks or Aceh banks. After the amendment to the banking law, the growth of Islamic banking increased rapidly and significantly because conventional bank units to open Sharia Business Units were included in Aceh. In addition, to increase the growth of Islamic banking, conventional banks are permitted after obtaining a permit to convert their business activities based on Sharia principles. This is also being done by local banks in Aceh, especially Acehnese banks with red plates, to open Islamic Windows or their Sharia Business Units. Furthermore, Bank Aceh started its operations using the Sharia system after receiving a letter from Bank Indonesia with number 6/4/Dpb/BNA dated October 19, 2004, regarding the Permit to Open a Sharia Bank Aceh Branch Office in Bank Aceh's commercial activities. The bank began conducting operational activities based on these Sharia principles on November 5, 2004. A new round of institutional change occurred in 2014 with the birth of the Regional Government of Aceh Qanun Number 8 of 2014. The conversion of Bank Aceh is a development step carried out by Bank Aceh, to transform into a Sharia bank, and receive direct supervision from the Financial Services Authority.⁴¹

The recognition stage is a strategic transformation process for the development of Islamic financial institutions in Aceh. This is of course strengthened by the Aceh Qanun No. 8 of 2014 concerning Principles of Islamic Sharia. Rules which contain rules regarding Islamic financial institutions that require conventional financial institutions to open Islamic Business Units.

The third is the stage of purification. The purification stage is the most important because there are many opinions that the current practice of Islamic banking is not by the principles of Islamic law. Issuance of Law no. 21 concerning Islamic Banks in 2008, especially to improve the compliance of Islamic Banks with Sharia principles. Islamic banking is different from conventional banking because it is free of interest and other principles. Islamic banks operate according to Sharia principles, principles that are different from conventional banks and they have different risk profiles. Islamic banks have two types of regulations, the first is the government and the central bank which also supervise traditional banks, and the second is the Sharia Supervisory Board which legalizes Islamic banking products and oversees the implementation of the rules set by the Sharia Supervisory Board.⁴² This hope is in line with the vision of developing a national

³⁹ Sri Ulina And M. Shabri Abd Majid, "A Comparative Analysis Of Resilience Of Islamic And Conventional Banks In Indonesia," *Muqtasid: Jurnal Ekonomi Dan Perbankan Syariah* 11, no. 2 (2020): 88.

⁴⁰ M. Kabir Hassan And Sirajo Aliyu, "A Contemporary Survey Of Islamic Banking Literature," *Journal Of Financial Stability* 34, (2018): 12.

⁴¹ Bank Aceh, "Sejarah Singkat," https://www.bankaceh.co.id/?page_id=82, (14 September 2021).

⁴² Asma Salman And Huma Nawaz, "Islamic Financial System And Conventional Banking: A Comparison," *Arab Economic And Business Journal* 13, no. 2 (2018): 155.

Islamic Bank, which is to realize a healthy, strong and sharia law-based Islamic banking system within the framework of justice, interests, and balance to create a materially and spiritually prosperous society.⁴³

Islamic banking has a different organizational structure from conventional banks with a “multi-layer” governance system,⁴⁴ which can lead to different agency conflicts between bank stakeholders compared to conventional banks. Governance of the first layer by the board of directors is similar to conventional banks. The second governance that is characteristic of Islamic banks is the existence of a second governance body, namely the Sharia Supervisory Board (DPS). The first focuses on performance while the second has a role in monitoring Sharia Compliance.⁴⁵ The duties of the Sharia Supervisory Board in Hisham Farag's research explained that the larger the DPS the better the financial performance and these results reinforce the fundamental role of DPS to legalize permitted financial instruments and products so that they are ready to fulfill Sharia compliance.⁴⁶ A very important synergy between DPS MUI as implementation guidelines, Islamic financial institutions as executors, and the government in the form of regulations for the purification of Islamic banks.

At this stage of refining financial institutions, Aceh has succeeded in changing the direction of financial institutional policies to fully transform into Bank Aceh Syariah. This momentum was used by the regional government to make a specific and more specific Qanun for Islamic Financial Institutions. As a result, the Government of Aceh in 2018 issued Aceh Qanun Number 11 of 2018 concerning Islamic Financial Institutions as a reinforcement of Aceh Qanun Number 8 of 2014 Concerning Principles of Islamic Sharia.⁴⁷ On December 31, 2018, the government legally issued the Aceh Qanun Number 11 of 2018 concerning Islamic Financial Institutions to become a guideline for Islamic economic development in Aceh.

Qanun Authority And The Impact Of Transformation Of Islamic Financial Institutions In Aceh

According to data from the Financial Services Authority (OJK) as of March 2019, the development of Islamic banking based on the province of Nanggroe Aceh Darussalam related to asset growth of 6.53%, growth in financing provided 2.71%, growth in third-party funds 8.06%.⁴⁸ This data increased drastically as conventional financial institutions converted to Islamic financial institutions based on OJK data as of December 2020, the

⁴³ Peraturan Presiden Republik Indonesia, “Pasal 1 Angka 32 Undang-Undang Republik Indonesia Nomor 21 Tahun 2008 Tentang Perbankan Syariah,” (2008).

⁴⁴ Sabur Mollah And Mahbub Zaman, “Shari’ah Supervision, Corporate Governance And Performance: Conventional Vs. Islamic Banks,” *Journal Of Banking And Finance* 58, (2015): 418.

⁴⁵ Celine Meslier, Tastaftiyah Risfandy, And Amine Tarazi, “Islamic Banks’ Equity Financing, Shariah Supervisory Board, And Banking Environments,” *Pacific Basin Finance Journal* 62, (2020).

⁴⁶ Hisham Farag, Chris Mallin, And Kean Ow-Yong, “Corporate Governance In Islamic Banks: New Insights For Dual Board Structure And Agency Relationships,” *Journal Of International Financial Markets, Institutions And Money* 54, (2018): 59–77.

⁴⁷ fauzi Cut Syam, “Bank Indonesia: Keberadaan Qanun Lembaga Keuangan Syariah Membuat Sektor Riil Bergairah,” <https://www.ajnn.net/news/bank-indonesia-keberadaan-qanun-lembaga-keuangan-syariah-membuat-sektor-riil-bergairah/index.html>, (12 September 2022).

⁴⁸ Otoritas Jasa Keuangan, “Snapshot Perbankan Syariah Indonesia 2020” (2020).

development of Islamic banking by Nanggroe Aceh Darussalam province related to asset growth of 50.80%, growth in financing provided 74.03%, growth in third-party funds 48,76 %.⁴⁹ Nationally it is proven that Islamic banks continue to grow, from the results of Ayus Ahmad Yusuf, et al's research showing that Conventional Banks which are included in the large bank group have a good level of efficiency with a trend that tends to be flat, while Islamic Banks which are classified as small capacity banks, actually experience efficiency improvements every year. The number of Conventional Banks in Indonesia has decreased every year, therefore the efficiency level of Conventional Banks has not experienced growth. In contrast, Islamic Banks have experienced a growth in the number of banks from year to year, so the efficiency level of Islamic Commercial Banks has grown every year.⁵⁰

This is a manifestation of the implementation of qanun regulations in Aceh which are believed to be a significant driver for the growth of national Islamic financial institutions and integral Islamic economics. With the ratification of the LKS qanun in Aceh, all financial institutions operating in Aceh, including banking institutions, are required to become LKS. Conventional bank data in Aceh as of March 2019 is shown in the table below.

Table 1. Number Of Conventional Commercial Banks (BUK) In Aceh

No.	Bank Name	Number Of Branch Offices
1	Bank Mandiri	3
2	Bank Mandiri Taspen Pos	1
3	Bank BRI	11
4	Bank BNI	6
5	Bank BTPN	2
6	Bank BCA	1
7	Bank Bukopin	1
8	Bank Panin	1
9	Bank Danamon Indonesia	2
10	Bank Maybank Indonesia	1
11	Bank BTN	1
12	Bank CIMB Niaga	1
	Total	32

Source: Otoritas Jasa Keuangan

From the 32 conventional bank branch offices, they will begin to adjust their business operations by Sharia principles since the promulgation of Qanun Aceh Number 11 of 2018 concerning Islamic Financial Institutions.⁵¹ The status between Conventional Commercial Banks and Sharia Commercial Banks or Sharia Business Units is shown in Table 2.

⁴⁹ *Ibid.*

⁵⁰ Ayus Ahmad Yusuf, Nur Santi, And Erin Rismaya, "The Efficiency Of Islamic Banks: Empirical Evidence From Indonesia," *Journal Of Asian Finance, Economics And Business* 8, no. 4 (2021): 239.

⁵¹ Otoritas Jasa Keuangan, "Snapshot Perbankan Syariah Indonesia 2019," (2019).

Table 2. Status Of Conventional Commercial Banks (BUK), Sharia Commercial Banks (BUS), Sharia Business Units (UUS) In Aceh In 2019

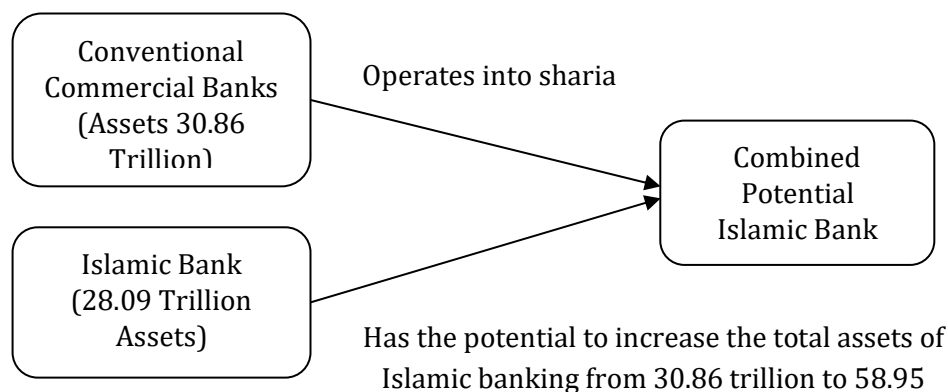
No	BUK	BUS	UUS	Information
1	Bank Mandiri	Bank Syariah Mandiri		Konversi
2	Bank Mandiri Taspen Pos	Bank Syariah Mandiri		Konversi
3	Bank BRI	Bank BRI Syariah		Konversi
4	Bank BNI	Bank BNI Syariah		Konversi
5	Bank BTPN	Bank BTPN Syariah		Konversi
6	Bank BCA	Bank BCA Syariah		Konversi
7	Bank Bukopin			Belum Syariah
8	Bank Panin			Belum Syariah
9	Bank Danamon Indonesia		Bank Danamon Syariah	Konversi
10	Bank Maybank Indonesia		Bank Maybank Syariah	Konversi
11	Bank BTN		Bank BTN Syariah	Konversi
12	Bank CIMB Niaga			Belum Syariah
13		Bank Aceh Syariah		
14		Bank Muamalat Indonesia		
15		Bank Mega Syariah		
16			Bank Permata Syariah	
17			Bank Sinarmas Syariah	

Source: Otoritas Jasa Keuangan

From the table, it can be understood that the transformation still has great potential for 6 Conventional Commercial Banks, and the establishment of 2 new Islamic Commercial Banks, namely Bank Permata Syariah and Bank Sinarmas Syariah. Institutional changes can, of course, add to the assets of Islamic Commercial Banks in Aceh. This is the real impact of institutional change as a manifestation of the Qanun's implications for Islamic banking in Aceh. The following describes the potential assets of Islamic Commercial Banks in Aceh if all institutional conversions become Islamic Commercial Banks.⁵²

⁵² *Ibid.*

Picture 1. Potential Assets Of Islamic Commercial Banks In Aceh



Source: Processed By Researchers

From this data, we can see that the transformation of all financial institutions into Islamic financial institutions as a whole will result in a large banking market share, especially in terms of assets. Assets that were previously divided between general conventional banks and Sharia banks will become one in the form of Sharia banks. The potential assets of Sharia banks in Aceh are very large, with initial assets of conventional commercial banks in Aceh amounting to 30.86 trillion and Sharia banks amounting to 28.09 trillion. If these assets are combined, the total assets of Islamic banks reach IDR 58.95 trillion. In March 2021, the Financial Services Authority (OJK) recorded an increase in Sharia Commercial Bank assets of 81.60 percent. Based on this data, the condition of sharia financial institutions in Aceh has been shaped by the Aceh Qanun policy which gradually encourages the transformation of conventional financial institutions into pure sharia financial institutions.⁵³

It is important to note that the authority of the government of the Special Region of Aceh from the perspective of Khaleed Abou el Fadl's authority,⁵⁴ includes aspects of coercive authority and charismatic authority.⁵⁵ Coercive authority is power authority that is applied by force from top to bottom. Although the implementation of the Aceh Qanun in this context appears to originate from a coercive government, historically, the aspirations of the Acehnese people to have a fully legitimate Sharia economic system have been part of a long history. Therefore, the authority to implement the Sharia economic system in this Qanun appears to have emerged from the government but has deep roots in the desires of the Acehnese people.

The process of transforming Sharia financial institutions in Aceh has become easier with strong support from the community who believe in and support Sharia principles. This belief became a strong foundation for the implementation of the Sharia financial institution revolution launched by the Aceh government. Community support and active participation in adopting sharia financial institutions have helped smooth and increase the effectiveness of changes towards a financial system that is more in line with

⁵³ Departemen Perizinan Dan Informasi Perbankan Otoritas Jasa Keuangan, "Statistik Perbankan Syariah Per Maret 2021," <https://www.ojk.go.id/id/kanal/syariah/data-dan-statistik/statistik-perbankan-syariah/Pages/Statistik-Perbankan-Syariah---Maret-2021.aspx>, (25 September 2021).

⁵⁴ Khaled M. Abou El Fadl, *Atas Nama Tuhan: Dari Fikih Otoriter Ke Fikih Otoritatif*, (Jakarta: PT. Serambil Ilmu Semesta, 2004), h. 224.

⁵⁵ *Ibid.*, h. 245.

Islamic principles. Thus, the transformation towards a comprehensive Sharia financial institution will be a smoother and more successful step in Aceh, in line with the strong aspirations of the community towards Sharia principles in the financial aspect.

Conclusion

The transformation of financial institutions in Aceh was born from the philosophy of culture and life of the Acehnese people in general, adhering to the Al-Quran and Sunnah as a way of life. This philosophy was later manifested through the strengthening of legal politics in the form of Qanuns in the field of Islamic finance, namely Qanun Aceh number 8 of 2014 concerning Principles of Islamic Sharia, in which it issued regulations regarding Islamic financial institutions. Then strengthened in Qanun Aceh No. 11 of 2018 concerning Islamic Financial Institutions. It is the authority of the Qanuns that is the instrument for the Aceh special regional government to implement the system and change conventional financial institutions into Islamic financial institutions in Aceh. The process of transforming sharia financial institutions in Aceh was born from two spirits, namely the roots and soul of the nation of the Acehnese people who have implemented Islamic sharia in a civilized manner, and authority that comes from the credo of the Acehnese people. Based on the discussion that has been presented, further research related to the transformation of financial institutions in Aceh can discuss the following matters: More in-depth analysis regarding the implementation of Aceh Qanun number 8 of 2014 concerning the Principles of Islamic Sharia and Aceh Qanun Number 11 of 2018 concerning Financial Institutions Sharia, and its Impact on Economic Development in Aceh. Study of the Acehnese people's understanding of the Sharia financial system and its influence on their choices in using financial institution services. Analysis of the challenges and opportunities faced in the transformation of financial institutions in Aceh, as well as strategies that can be implemented to overcome these challenges. This research can help deepen understanding of the transformation of financial institutions in Aceh and contribute to the development of sharia economics in Indonesia.

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