



Critical Analysis of the Use of Conventional Banks as Custodian Banks in Islamic Mutual Fund Transactions

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Abstract

There is one important component that raises doubts for capital owners who will invest in Islamic mutual funds, namely the use of conventional banks as custodian banks. The purpose of this study is to find out how sharia economic law reviews conventional banks as custodian banks. This study uses a qualitative method with a literature study approach. Data is obtained from interviewing several potential investors, various regulations related to Islamic mutual funds and custodian banks, as well as literature that reviews the principles of muamalah. It was found that conventional banks that become custodian banks must obtain an application from the Financial Services Authority. To ensure the sharia of this business activity, a cleaning process is set up to remove non-halal elements in the form of interest and other non-sharia risks that may come from the activities of related companies. The reluctance to become an investor is caused by the lack of knowledge about the mechanism of Islamic mutual funds for which literacy is needed. However, there are some potential investors who consistently want the bank used is an Islamic bank. Regulations are needed that require the use of Islamic banks as the only custodian bank, but it must be done carefully and gradually according to the readiness of the Islamic bank in question.

Keywords: Conventional Bank; Custodian Bank; Sharia Mutual Fund

Abstrak

Terdapat satu komponen penting yang memunculkan keraguan bagi pemilik modal yang akan melakukan investasi pada reksadana syariah yaitu penggunaan bank konvensional sebagai bank kustodian. Tujuan penelitian ini untuk mengetahui bagaimana tinjauan hukum ekonomi syariah terhadap bank konvensional sebagai bank kustodian. Kajian ini menggunakan metode kualitatif dengan pendekatan studi pustaka. Data diperoleh dari mewawancarai beberapa calon investor, berbagai regulasi terkait reksa dana syariah serta bank kustodian, juga literatur yang mengulas prinsip bermuamalah. Ditemukan bahwa bank konvensional yang menjadi bank kustodian harus mendapat pengajuan dari Otoritas Jasa Keuangan. Untuk menjamin kesyariahan aktivitas bisnis ini diatur suatu proses pembersihan untuk menyingkirkan unsur non halal berupa bunga dan resiko non syariah lainnya yang dapat saja berasal dari kegiatan perusahaan terkait. Keengganan menjadi investor disebabkan oleh ketidakutuhan pengetahuan tentang mekanisme reksadana syariah untuk itu diperlukan literasi. Akan tetapi ada sebagian calon investor yang secara konsisten menginginkan bank yang digunakan adalah bank syariah. Perlu regulasi yang mewajibkan penggunaan bank syariah sebagai satu-satunya bank kustodian, tetapi harus dilakukan secara cermat dan bertahap sesuai kesiapan bank syariah dimaksud.

Kata Kunci: Bank Konvensional; Bank Kustodian; Reksadana Syariah

INTRODUCTION

The establishment of Islamic banking in Indonesia marked the beginning of a new era in the financial system in accordance with Islamic principles. The presence of Bank Muamalat Indonesia in 1992 as the first Islamic bank in Indonesia became the starting point for the development of

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Islamic finance in the country. The implementation of sharia principles that prohibit riba (interest), maysir (speculation), and gharar (uncertainty) in banking helped create the need for broader Islamic financial instruments, which then encouraged the development of the Islamic capital market.¹ This development was realized through the launch of instruments such as Islamic stocks, sukuk (Islamic bonds), and Islamic mutual funds as well as the establishment of Islamic capital market indices such as the Jakarta Islamic Index (JII) in 2000.² With regulatory support from the government and supervision by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), the Islamic capital market grew rapidly and became one of the important components in the development of Islamic economics in Indonesia.³

The launch of Islamic capital market instruments began to attract investors' interest in sharia-based investments, driven by a growing awareness of the importance of fair and ethical investments.⁴ A system that emphasizes the prohibition of riba, maysir, gharar and ensures that the profits obtained do not harm other parties. Sharia-based investments are believed to be able to contribute to more inclusive and stable economic development because they prioritize equitable profit distribution, transparent participation, and prudent risk management. With the increasing choice of Islamic instruments, the Islamic capital market is growing and offers great potential for investors in economic development without ignoring Islamic principles.⁵

Investing is a complex activity that requires careful analysis of the prospects and risks faced by potential investors. Every investment decision requires an in-depth evaluation of various factors, including the historical performance of the investment instrument, market conditions, and the growth potential of the relevant industry sector. Investment risks, both systemic and non-systemic, must be carefully considered, as failure to anticipate risks can lead to significant losses. Investors are faced with the challenge of assessing market volatility, changes in economic policy, and global dynamics that can affect the performance of investment assets.⁶ In addition, knowledge of risk management, such as portfolio diversification and proper asset allocation, is key in minimizing the negative impact and uncertainty of the market. Therefore, the ability to conduct comprehensive fundamental and technical analysis is essential to optimize investment decision-making that is not only profitable, but also in line with individual risk tolerance.⁷

¹ Sri Kurnialis et al., "Perkembangan Perbankan Syariah Di Negara Muslim," *SYARIKAT: Jurnal Rumpun Ekonomi Syariah* 5, no. 2 (December 2022): 117.

² "Indeks Saham Syariah," n.d., <https://www.idx.co.id/id/idx-syariah/indeks-saham-syariah>.

³ Ani Lutfiyah, Danang Purbo Raharjo, and M. Lathoif Ghozali, "Implementasi Fatwa Dewan Syariah Nasional - Majelis Ulama Indonesia (DSN-MUI) Terhadap Pasar Modal Syariah Di Pasar Modal Syariah Indonesia," *Jurnal Ilmiah Ekonomi Islam* 8, no. 03 (2022): 3440.

⁴ Abdulloh Mubarak, "Investasi Etis (Konsep, Dasar Pertimbangan Dan Pendekatan)," *JESYA: Jurnal Ekonomi Dan Ekonomi Syariah* 5, no. 1 (2022): 778.

⁵ Nila Atikah and Sayudin, "Analisis Perkembangan Pasar Modal Syariah: Tantangan Dan Peluang Dalam Investasi Berbasis Prinsip Syariah," *Jurnal Inovasi Global* 2, no. 1 (2024): 212.

⁶ Siti Rohayani, Hidajat Sofyan Widjaja, and Reny Fitriana Kaban, "The Effect of Sharia Share, Corporate Sukuk and Sharia Mutual Fund on National Economic Growth 2013-2020," *(MEC-J) Management and Economics Journal* 6, no. 3 (2022): 217.

⁷ Liestyowati et al., "Pengaruh Diversifikasi Portofolio Terhadap Pengelolaan Risiko Dan Kinerja Investasi: Analisis Pada Investor Individu," *Jurnal Akuntansi Dan Keuangan West Science* 2, no. 03 (2023): 193.

The presence of sharia mutual funds is a place for people to invest their excess funds practically. This financial institution is managed by an Investment Manager (MI) and invested in various securities in accordance with sharia principles. Investment managers in Islamic mutual funds have an important role in ensuring that the entire investment portfolio complies with the rules set by the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). So that Islamic mutual funds are an option for investors who are constrained by time or who have minimal knowledge of how the Islamic capital market works with the existence of a trusted manager to carry out investment activities because it is easier and more practical.⁸

Banks play a crucial role in mutual fund activities, both conventional and sharia, through their main function as custodian banks. Custodian banks are responsible for providing custodial services for securities and other assets related to securities, as well as administrative services such as receiving dividends, interest, and other rights, settling securities transactions, and representing account holders who are their customers.⁹ In the context of Islamic mutual funds, although many still use conventional commercial banks as custodians, challenges arise in ensuring that all transactions and fund management are in accordance with sharia principles. This strategic role means that custodian banks must be able to ensure that all operations, including asset management and transactions, comply with sharia requirements. One important step in this regard is the cleansing process, which purifies the wealth of Islamic mutual funds from non-halal elements. This process is carried out by the Investment Manager (MI) to ensure that the funds managed fully comply with sharia standards, and any income or profits derived from non-halal activities must be removed or channeled to social activities.¹⁰

According to Islamic mutual fund statistics released by the Financial Services Authority (OJK) in September 2024, out of a total of 250 Islamic mutual funds circulating in Indonesia, only 32 have made Islamic banks as custodian banks, which is 12.8%. One example that can be seen of the use of conventional commercial banks in Islamic mutual funds is in the Bibit investment application which can be found through the mutual fund feature with the type of Islamic mutual fund, the product can be reviewed specifically regarding investment fees and investment information such as minimum purchase, depository bank, and custodian bank. This fact shows that the majority of Islamic mutual funds in Indonesia still use conventional banks as custodian banks. This condition can lead to several investor perceptions of Islamic fund management, especially in terms of compliance with sharia principles.¹¹ In addition, the low percentage of Islamic banks as custodians in Islamic mutual funds can also be a challenge for the development of

⁸ Yuwita Nur Inda Sari, "Tinjauan Hukum Islam Terhadap Investasi Reksadana Syariah," *Jurnal Masharif Al-Syariah: Jurnal Ekonomi Dan Perbankan Syariah* 5, no. 2 (2020): 102.

⁹ "UNDANG-UNDANG REPUBLIK INDONESIA NOMOR 8 TAHUN 1995 TENTANG PASAR MODAL," n.d.

¹⁰ "Proses Cleansing Reksadana Syariah," n.d., <https://sikapiuangmu.ojk.go.id/FrontEnd/CMS/Article/20646>.

¹¹ Rini Rizkia et al., "Islamic Economics Perspectives on Investing in Sharia Mutual Funds Using Bibit Applications," *JESKaPe: Jurnal Ekonomi Islam Akuntansi Dan Perbankan* 8, no. 1 (2024): 134.

the Islamic financial industry, considering that one of the main objectives of this product is to support financial transactions that are in accordance with Islamic values as a whole.¹²

Supported by the results of an interview with one religiously motivated investor who faced a dilemma when he wanted to invest in Islamic mutual funds. Although interested in the concept of investing in accordance with Islamic principles, he refused to use a product that involved a conventional custodian bank. For him, the use of a conventional bank, even if only as a custodian service provider, is not in line with his beliefs that reject usury and non-Shariah transactions. The custodian bank functions as a party that stores and manages securities and related assets, but because the bank operates under a conventional banking system that involves interest or other non-halal products, the investor decides to abandon his intention to become an investor.¹³ Based on this background, the author is interested in analyzing how the use of conventional banks as custodian banks in Islamic mutual funds is viewed from Islamic economic law. The results are expected to contribute knowledge and understanding to the public regarding the pros and cons of using conventional commercial banks as custodian banks in Islamic mutual funds and how custodian banks work within the scope of sharia.

RESEARCH METHOD

In this research, the research method used is qualitative with a literature study approach. Primary data is obtained from interviewing several novice investors with religious motivations who discourage investment in Islamic mutual funds that choose conventional commercial banks as their custodian banks. Then observe the existing data on Islamic mutual funds which are focused on the Bibit application. Secondary data were obtained from regulations related to Islamic mutual funds and custodian banks, literature that reviews the principles of bermuamalah and supporting research journals. The data is analyzed using a descriptive analysis approach by processing primary and secondary data and then providing an explanation based on the findings of the data processing.¹⁴ The purpose of this study is to provide readers with an understanding of the use of conventional commercial banks as custodian banks in Islamic mutual funds and to know how custodian banks work.¹⁵

¹² "Statistik Reksa Dana Syariah - September 2024," accessed October 12, 2024, <https://ojk.go.id/id/kanal/syariah/data-dan-statistik/reksa-dana-syariah/Pages/Statistik-Reksa-Dana-Syariah---September-2024.aspx>.

¹³ Afandi, October 8, 2024.

¹⁴ Hari Sutra Disemadi, "Lenses of Legal Research: A Descriptive Essay on Legal Research Methodologies," *Journal of Judicial Review (JJR)* 24, no. 2 (2022): 297.

¹⁵ Audrey Alejandro and Longxuan Zhao, "Multi-Method Qualitative Text and Discourse Analysis: A Methodological Framework," *Qualitative Inquiry* 30, no. 6 (July 2024): 461-73, <https://doi.org/10.1177/10778004231184421>.

RESULTS AND DISCUSSION

Mechanism of Islamic Mutual Fund

To be able to fully understand the compliance with sharia principles in the operation of Islamic mutual funds, it is necessary to first understand how this financial institution works, especially related to the role of custodian banks. Islamic mutual funds work by collecting funds from investors and investing them in various Islamic financial instruments. The mechanism of Islamic mutual funds in general is relatively similar to conventional mutual fund investments. However, the way sharia mutual funds work is slightly different because they must comply with and refer to the principles of Islamic law. For example, when making this type of investment, investors will authorize or do a wakalah bin ujah contract. With this contract, investors authorize their funds to the investment manager (MI) to manage their investments through a wakalah contract.¹⁶ The assets of the Islamic mutual fund are kept and administered by a custodian bank that complies with sharia principles. In return for the management, both the investment manager and the custodian bank get a fee or ujah and investors will get profit sharing on their investment funds in Islamic mutual fund products. In addition, in managing the securities portfolio, investment managers must place managed funds in investment instruments that are included in the Sharia Securities List (DES) which is determined directly by the OJK.

So, the halal results received by investors can be accounted for, especially since the companies listed have passed DPS verification. There is something even more interesting about the cleansing process. Unlike conventional mutual funds, this Islamic mutual fund has gone through a wealth cleansing stage or a cleansing process from non-halal elements carried out by the Investment Manager.¹⁷



Table 1. how Islamic mutual funds work

¹⁶ Muhammad Irkham Firdaus, Muhammad Abdul Aziz, and Sharifurrohman Hoh, "Mekanisme Reksadana Syariah Melalui Aplikasi Bibit Perspektif Akad Wakalah Bil Ujah," *Al-Mustashfa: Jurnal Penelitian Hukum Ekonomi Islam* 7, no. 2 (2022): 180.

¹⁷ "Peraturan Otoritas Jasa Keuangan Republik Indonesia Nomor 33/POJK.04/2019 Tentang Penerbitan Dan Persyaratan Reksa Dana Syariah," n.d., 48.

From the explanation and table above, it is clear that custodian banks are one of the important components in the operation of mutual funds, including Islamic mutual funds. Funds from investors are collected at the custodian bank to be managed by the investment manager. Between the investment manager and the custodian bank there is a Collective Investment Contract (KIK). The KIK is a contract between the investment manager and the custodian bank that binds the Unit Holders (UP). The investment manager is authorized to manage the collective investment portfolio and the custodian bank is authorized to carry out collective custody. Dividends from investment returns will also be channeled through the relevant custodian bank. So the custodian bank plays a role starting from the beginning of investment activities, operations, and at the end of these activities.¹⁸

Conventional Commercial Bank as Custodian Bank

A custodian bank is a commercial bank that provides depository services for securities and other assets related to securities, as well as various other services, such as receiving dividends, interest, and other rights, and settling securities transactions. It also acts as a representative for account holders who are its customers. In carrying out this function, the custodian bank must obtain a license from OJK.¹⁹ The custodian bank can only disburse securities or funds recorded in the securities account on the basis of written instructions from the account holder or the party authorized to act on his behalf. In a mutual fund in the form of a Collective Investment Contract (KIK), the custodian bank works with an investment manager who acts to manage the collective custody.²⁰ The list of custodian banks registered in mutual funds based on an alert from the financial services authority, the investment management industry information center in 2024, totals 21 banks with the majority being conventional banks.²¹ The strategic role of the custodian bank in sharia mutual funds requires that the bank in question must operate fully based on sharia principles. Based on custodian bank data reported by the Financial Services Authority as of September 2024, out of 250 Islamic mutual funds in Indonesia, there are only 32 that use Islamic Banks as custodian banks or 12.8% only. The rest choose to work with conventional banks.²² The choice of conventional banks is certainly related to the trust of potential investors in banks. In addition, the use of conventional commercial banks as custodian banks is based on the consideration that conventional banks will reach a wider range of potential investors.²³

¹⁸ "Pembaharuan Prospektus Reksa Dana Syariah Trimegah Kas Syariah," n.d., 42.

¹⁹ "Peraturan KSEI Nomor X-B Tentang Tata Cara Penggunaan Sistem Pengelolaan Investasi Terpadu Di KSEI," 18.

²⁰ "Peraturan Otoritas Jasa Keuangan Republik Indonesia Nomor 33/POJK.04/2019 Tentang Penerbitan Dan Persyaratan Reksa Dana Syariah," 13.

²¹ "Bank Kustodian," n.d., <https://reksadana.ojk.go.id/Public/BankKustodianList.aspx>.

²² "Statistik Reksa Dana Syariah - April 2024," n.d., 20, <https://ojk.go.id/id/kanal/syariah/data-dan-statistik/reksa-dana-syariah/Pages/Statistik-Reksa-Dana-Syariah---April-2024.aspx>.

²³ Sylva Alif Rusmita et al., "Growth and Value Effect on Jakarta Islamic Index: Analysis towards Performance of Sharia Equity Mutual Fund," *Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah (Journal of Islamic Economics)* 11, no. 1 (2019): 164.

Actually, there is a provision that mentions that the custodian bank should be a bank that carries out its activities based on sharia principles as a whole or what is called a Sharia Commercial Bank. Sharia Council Fatwa number 20/DSN-MUI/IV/2001 in chapter IV concerning Investment Selection and Implementation, precisely in article 7 paragraph (2) point (b) it is stated that placement in deposits at Islamic commercial banks. In article 11 paragraph (3) point (d) which regulates the determination and distribution of investment returns, one form of investment income that can be received by Islamic Mutual Funds is from deposits in the form of profit sharing from Islamic banks.²⁴ It is not explicitly stated that the custodian bank that becomes a partner in an Islamic mutual fund must be an Islamic bank. However, at least it can be seen that the ideal custodian bank is of course an Islamic bank in order to ensure that all Islamic mutual fund activities comply with sharia principles as a whole. Even though it is not an official legislation, this Fatwa of DSN MUI can fill the legal void on this matter. Other regulations related to custodian banks can be found in the Regulation of the Financial Services Authority of the Republic of Indonesia Number 33/POJK.04/2019 concerning the Issuance and Requirements of Sharia Mutual Funds. In Chapter I General Provisions, Article 1 paragraph (7) stipulates that a Custodian Bank is a commercial bank that has obtained approval from the Financial Services Authority to carry out business activities as a custodian.²⁵

The regulation does not mention the form of the custodian bank, there is no obligation to partner with an Islamic bank, so in practice, as mentioned above, most custodian banks (87%) are more conventional banks. Whereas in principle there are substantial differences between Islamic banks and conventional banks. Vice President of Indonesia KH Ma'ruf Amin as a figure who intensively works on Islamic economics, including Islamic banking, said that the difference between Islamic banks and conventional banks is like the seventh heaven and a borehole.²⁶ This means that the differences are not just varied but contradictory. The difference between the two, continued Kiai Maruf, can be at a technical level such as employees dressing in Islamic clothing or at a substantial level such as fund management practices and processes. To ensure that a bank operates consistently based on sharia principles, sharia banks that are sharia units of a conventional bank are encouraged to spin off, becoming a bank with independent management, independent of its conventional parent bank. The Islamic business unit of a conventional commercial bank is suspected to not be fully independent from the interest system which is included in the category of usury.

As explained in the literature review section, business activities should be free from prohibited things such as transactions involving haram goods, usury, gharar, manipulation and others. Bermuamalah is actually done to get the pleasure of Allah SWT, so the main motivation for doing business is in order to worship, to serve Allah. Therefore, doing business, in this case

²⁴ Sharia Council Fatwa number 20/DSN-MUI/IV/2001 in chapter IV concerning Investment Selection and Implementation.

²⁵ "Peraturan Otoritas Jasa Keuangan Republik Indonesia Nomor 33/POJK.04/2019 Tentang Penerbitan Dan Persyaratan Reksa Dana Syariah."

²⁶ "Kiai Maruf Jelaskan Perbedaan Bank Syariah Dan Konvensional," n.d., <https://nu.or.id/nasional/kiai-maruf-jelaskan-perbedaan-bank-syariah-dan-konvensional-aF0d0>.

investing funds to become more prosperous, must be based on the principle of tawhid. The principle of tawhidi is the main foundation in all aspects of Islamic law. Every activity and building of human life must be based on the values of tawhid. This means that every action and rule of law must reflect divine values. Thus, profit-seeking must be ensured to be able to strengthen the principle of tawhid.²⁷ In addition, doing business must also be able to increase social care. Every Muslim must ensure that the wealth he gets is clean funds because he has paid zakat from the income he receives. This is also to also ensure that the muamalah carried out provides masalah both for oneself, and others around him. On the other hand, it can also be elaborated that in the practice of Islamic mutual funds, there is a process called cleansing. Cleansing is a process of cleaning Islamic mutual funds from income that is not in accordance with sharia principles or things that can interfere with the halal status of the money obtained during the investment process. From this cleansing process, most of the money does not go directly to the owner of the capital but will be directed to charitable matters.

When an investor places his funds to invest in Islamic mutual funds, as mentioned earlier, the custodian bank account used is generally a commercial bank because the funds deposited by the public are immediately withdrawn and transferred to the main account, some are allowed to settle first for some time and only withdrawn if the amount is significant. From the funds that settle, although small, generally the bank will give interest. That interest income must then be recorded separately because it cannot be recognized as income and will then be practiced. This process is then called cleansing.²⁸ In addition to the above, cleansing funds also have the potential to arise from corporate actions, namely debt issuance. For example, if a company whose business unit and financial ratios have met sharia principles makes a loan to a bank. As a result of this action, the debt ratio changes to more than 45 percent so that the OJK and IDX are excluded from the Sharia Securities List (DES). It turns out that when it was removed, the Investment Manager of the sharia mutual fund had not had time to sell all the shares and the price had increased. The price increase that occurs after a share is removed from the DES should also not be recognized as sharia mutual fund income and must be recorded separately.²⁹

The matter of cleansing is specifically regulated in OJK Regulation Number 33 /POJK.04/2019 concerning the Issuance and Requirements of Sharia Mutual Funds. Article 60 states that the cleansing of Sharia Mutual Fund assets from funds that cannot be recognized as the net asset value of Sharia Mutual Funds is carried out on the following sources of funds: a. current account services and/or interest on cash placement in conventional bank accounts; b. excess selling price of securities and/or money market instruments other than sharia securities and/or money market instruments whose sales exceed 10 (ten) business days since: 1. the shares are no longer listed in the Sharia Securities List; and/or 2. securities other than shares and/or money market instruments do not comply with Sharia Principles in the Capital Market; c. excess selling

²⁷ Mujahidin, "The Principle of Tauhid and Ownership in Islamic Economic," *Al-Kharaj: Journal of Islamic Economic and Business* 3, no. 2 (2021): 186.

²⁸ Deka Donovan, "Tanggung Jawab Hukum Bank Kustodian Terhadap Investor Dalam Transaksi Jual Beli Saham Berbasis Aplikasi" (Salatiga, Universitas Kristen Satya Wacana, 2022), 65.

²⁹ "Proses Cleansing Reksadana Syariah."

price of securities and/or money market instruments other than sharia securities and/or money market instruments as referred to in Article 58; and/or d. other non-halal income. To provide confidence and certainty that a conventional bank has truly complied with sharia principles, the National Sharia Council even issued a certificate as received by PT Bank DBS Indonesia based on Decree No. 012.69.03/DSN-MUI/X/2018 dated October 11, 2018.³⁰ It's just that some religiously motivated investors see this as a form of practice of mixing the halal with the haram. Using conventional banks as custodian banks for him is a form of contribution to the sustainability of banks with usury systems. Even if the interest generated from depositing money in the bank is relatively small, it is still a forbidden muamalah practice.³¹ Allah explicitly prohibits the practice of usury in Surah Ali Imran verse 130 below:

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُّضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

Meaning: O you who believe! Do not eat usury with double and fear Allah so that you may be fortunate.

The verse explicitly states that believers are forbidden to eat usury that is multiplied, but generally scholars forbid every act of usury even on a small scale. The use of the multiple diction simply indicates the practice that was prevalent during the jahiliyyah period, while the prohibition still covers the entire practice of usury.³²

Literacy and Regulation

Alimatus Nafisah and Fauzatul Lily Nisa's study found that internally in recent years, sharia-based investment products in Indonesia have shown encouraging developments. This can be seen from the growth of assets managed by Islamic financial institutions, as well as the emergence of new innovations such as sharia Exchange Traded Fund (ETF) and sharia bonds that focus on sustainability (sustainable sukuk). These developments are driven by regulations issued by the government and related regulators, as well as efforts to improve Islamic financial literacy and inclusion in the community. The Islamic finance industry continues to grow by launching increasingly sophisticated and diverse financial products. This condition provides more choices of investment opportunities for investors who want to invest according to sharia rules. Recent innovations such as shariah-compliant ETFs and sustainability-minded sukuk have not only added to the range of investment instruments, but also increased the attractiveness of Islamic investment products in the global market. These instruments combine compliance with sharia principles with a focus on environmental and social aspects, making them an attractive option for global investors who are concerned about sustainability in their investments.³³ But externally, a fact based on official data and information from the Financial Services Authority, the Islamic

³⁰ "Pembaharuan Prospektus Reksa Dana Syariah Trimegah Kas Syariah," 27.

³¹ Mohd Shahid bin Mohd Noh, "Riba Threat in Al-Quran and Economic Crises," *IQTISHODUNA: Jurnal Ekonomi Islam* 9, no. 1 (2020): 13.

³² Abu Abdillah Muhammad ibn Ahmad ibn Abi Bakr al-Qurtuby, *Al-Jami' Li Ahkam al-Qur'an*, Jilid V (Beirut: ar-Risalah, 2006), 311.

³³ Alimatus Nasifah and Fauzatul Lily Nisa, "Eksplorasi Perkembangan Produk Investasi Syariah Di Perbankan Indonesia," *Jurnal Ilmiah Ekonomi Dan Manajemen* 2, no. 6 (June 2024): 798.

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mutual fund industry is far behind conventional mutual funds. As the data on the development of sharia mutual funds as of September 2024.³⁴

TAHUN	PERBANDINGAN JUMLAH REKSA DANA				PERBANDINGAN NAB (RP. MILIAR)			
	REKSA DANA SYARIAH	REKSA DANA KONVENSIONAL	REKSA DANA TOTAL	%	REKSA DANA SYARIAH	REKSA DANA KONVENSIONAL	REKSA DANA TOTAL	%
2010	48	564	612	7,84%	5.225,78	143.861,59	149.087,37	3,51%
2011	50	596	646	7,74%	5.564,79	162.672,10	168.236,89	3,31%
2012	58	696	754	7,69%	8.050,07	204.541,97	212.592,04	3,79%
2013	65	758	823	7,90%	9.432,19	183.112,33	192.544,52	4,90%
2014	74	820	894	8,31%	11.158,00	230.304,09	241.462,09	4,65%
2015	93	998	1.091	8,52%	11.019,43	260.949,57	271.969,00	4,05%
2016	136	1.289	1.425	9,54%	14.914,63	323.835,18	338.749,80	4,40%
2017	182	1.595	1.777	10,24%	28.311,77	429.194,80	457.506,57	6,19%
2018	224	1.875	2.099	10,67%	34.491,17	470.899,13	505.390,30	6,82%
2019	265	1.916	2.181	12,15%	53.735,58	488.460,78	542.196,36	9,91%
2020	289	1.930	2.219	13,02%	74.367,44	499.174,70	573.542,15	12,97%
2021	289	1.909	2.198	13,15%	44.004,18	534.434,11	578.438,29	7,61%
2022	274	1.846	2.120	12,92%	40.605,11	464.257,31	504.862,42	8,04%
2023	273	1.533	1.806	15,12%	42.775,16	458.682,30	501.457,47	8,53%
Januari	265	1.508	1.773	14,95%	43.426,43	457.654,17	501.080,60	8,67%
Februari	264	1.454	1.718	15,37%	43.722,07	452.068,14	495.790,21	8,82%
Maret	271	1.424	1.695	15,99%	43.719,10	442.841,22	486.560,32	8,99%
April	259	1.377	1.636	15,83%	44.515,53	435.227,71	479.743,24	9,28%

Source: Official Website of the Financial Services Authority

The data shows that the Islamic mutual fund industry is still relatively much smaller than conventional. Factors that can hinder the development of Islamic mutual funds are caused by the general public still not recognizing the existence of Islamic mutual funds. People still think that investing through Islamic mutual funds is only for Muslims and people prefer to invest in conventional mutual funds because conventional mutual funds are more experienced. Investing in Islamic mutual funds is relatively more expensive and the returns earned by investors are lower.³⁵ To improve skills in a particular field or activity. Herawati and Dewi found that the higher the level of literacy, the higher the intention to invest.³⁶ Related to the use of conventional banks as custodian banks, if we examine the available regulations, it actually requires banks to strictly comply with sharia principles. If potential investors are well informed about this, they may be more inclined to invest through an Islamic mutual fund platform. Suspicions and doubts can be

³⁴ "Statistik Reksa Dana Syariah - September 2024."

³⁵ Lilis Andini, "Prospek Perkembangan Reksa Dana Syariah Di Indonesia," *ISTITHMAR: Journal of Islamic Economic Development* 5, no. 1 (2021): 63.

³⁶ N.T. Herawati and N.W.Y. Dewi, "The Effect of Financial Literacy, Gender, and Students' Income on Investment Intention: The Case of Accounting Students. *Advances in Social Science, Education and Humanities Research*," *Proceedings of the 3rd International Conference on Innovative Research Across Disciplines (ICIRAD)*, 2019, 394.

dispelled by reading the rules that require cleaning, both of bank interest from the deposit of investor funds, as well as the possibility of a company being excluded from the sharia list. Adequate knowledge and understanding of this can be a solution to improve the Islamic mutual fund industry, with the actual cleansing, the funds are still guaranteed cleanliness, having been cleaned of non-halal elements.³⁷ However, for potential investors who firmly believe that as long as they still use conventional banks as custodian banks, they still cannot fulfill sharia principles consistently. So that the literacy as referred to above cannot be effective. Therefore, firmer regulations are needed, namely rules that explicitly require custodian banks to be Islamic banks.³⁸ This is to fulfill the imperative message of the Qur'an:

وَلَا تَلْبِسُوا الْحَقَّ بِالْبَاطِلِ وَتَكْتُمُوا الْحَقَّ وَأَنْتُمْ تَعْلَمُونَ

Meaning: And do not mix truth with falsehood, nor hide the truth while you know.

Allah SWT clearly and unequivocally commands not to do the right and the wrong at the same time by mixing them up so that the boundaries are not clear.³⁹ However, it is necessary to carry out careful mapping so that the rules that require the use of Islamic banks as the only custodial bank are not counterproductive to the desire to comply with sharia principles and improve the Islamic mutual fund industry can run at the same time. It must be ensured that Islamic banks are fully ready to meet the needs for the implementation of productive and competitive Islamic mutual funds. Reading the *maslahah* and its *madharat* must be studied accurately. In the condition that it has not been able to respond to these needs, the author argues that the use of conventional banks can still be tolerated. Even if there are those who argue that it means that it cannot be said to fully comply with sharia principles, at least for emergency conditions it is still more beneficial. This is in accordance with the rule that says:

ما لا يدرك كله لا يترك كله

What cannot be obtained by all, do not leave everything behind.

So it is necessary to take steps in establishing a rule according to the benefits that will be realized by enforcing it. In this regard, the author believes that the development of sharia mutual funds has promising prospects for the economic sector in the future if the performance system runs well and the government provides more adequate regulations.

CONCLUSION

Sharia mutual funds are an option and solution for prospective investors who have small capital and minimal knowledge to invest by complying with sharia principles. Because the purpose of this business activity is to improve welfare by utilizing excess funds while still being able to carry out Islamic law consistently, it must be ensured that all operations are fully based on sharia principles. The presence of this type of financial institution is indeed intended to be the best choice for certain investors who are of the view that conventional mutual funds are not in

³⁷ Adi Gunanto et al., "Islamic Mutual Funds: Risk and Return Management," *Journal of Islamic Accounting and Finance Research* 6, no. 1 (2024): 53.

³⁸ Fitria Novianti and Yaser Taufik Syamlan, "Determinants of Investment Decision Through Sharia Financial Technology," *Milkiyah: Jurnal Hukum Ekonomi Syariah* 3, no. 1 (2024): 14.

³⁹ Abu al-Fida' Ismail ibn Umar ibn Kasir, *Tafsir Al-Quran al-Azim*, 1, n.d., 245.

accordance with their attitude to life. The use of conventional banks as custodial banks is an entity that raises doubts for certain segments of society as potential investors, especially with religious motivations. Banks with this interest system are suspected of disturbing the tranquility of potential investors with the character in question, even to the point of dissuading them from investing.

There is a purification process so that the funds in this business are clean from non-halal elements such as interest, and the possibility of the inclusion of other non-sharia elements in the activities of the companies involved. The MUI National Sharia Council has even issued certificates for certain conventional banks that have passed the sharia test. However, using a bank with this interest system for some people still does not meet halal provisions. If the assumption of non-halal comes from the incomplete knowledge of this matter, then literacy can be a solution. The community must have complete knowledge to then behave. However, if the assumption of non-halal is a firm stance from prospective investors who already understand the mechanism of sharia mutual funds comprehensively, an Islamic bank must be provided as a custodian bank. Gradual efforts by considering actual conditions need to be carried out, in the future there needs to be a regulation that obliges the custodian bank to be an Islamic bank to guarantee the sharia of the sharia mutual fund itself.

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