

Risk in Islamic Banking and Finance in Indonesia

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This research focuses on Islamic banking in Indonesia. It considers the related challenges of sharia compliance by Islamic banks and their regulation and supervision in Indonesia's dual banking system. Crucial to the prudent regulation and supervision of banking is the control and monitoring of risks that could jeopardise a nation's financial stability. Since compliance with sharia principles is the *raison d'être* of Islamic banks, all their instruments and activities must be based on Islamic law. Unfortunately, sharia compliance gives rise to unique risks for Islamic banks not faced by conventional banks in Indonesia's dual banking system. These include inconsistencies between fatwas, unique reputational risks which can cascade into liquid risks, and inefficiencies in the manifold regulatory framework governing Islamic banks.

This research analyses the tension between classical Islamic principles required of bank contracts and the modern needs of businesses and the community. It also critically examines the less studied issue of developing an Islamic banking regulatory and supervisory framework that considers the risk pressures faced by Islamic banks operating in a financial sector dominated by conventional banking. This research argues that a middle way is possible for contemporary Islamic banks, which encourages prudent risk management whilst adhering to the evolving pluralistic form of Islamic law in Indonesia.

Romi Adetio Setiawan was born in Bengkulu, Indonesia and has recently submitted his PhD dissertation on Risk in Islamic Banking and Finance at Western Sydney University, Australia. He studied in India at Aligarh Muslim University where he successfully completed a B.A. in Islamic Studies, and Annamalai University for his M.A. in Economics. Setiawan is a full-time lecturer in Islamic Banking at State Islamic University, Bengkulu, Indonesia. His research interests include Islamic banking and finance, *sharia*, and international business transactions. He has published his articles in some peer-reviewed journals in Indonesia and proceeding papers at International Conferences.