The Birth History of *Sharia* Financial Institutions and Their Contribution to the Economic Development of the *Ummah* in Indonesia

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Abstract: *Research on the history of the birth of Sharia financial institutions and their contribution to development in Indonesia was carried out in November - December 2024. This research aims to analyze the history of the birth of Sharia financial institutions and their development since their inception, as well as their contribution to the economic development of the people in Indonesia. This research uses literature review and historical review methods from various sources from books and journals. The research results explain that Islamic financial institutions were born as an alternative solution to conventional system financial institutions, which were considered not by Islamic principles, especially in terms of riba (interest), gharar (uncertainty), and maysir (gambling) transactions. As time changes, Sharia financial institutions in Indonesia are proliferating, covering various types of institutions, ranging from Sharia banks, Sharia microfinance institutions, and Sharia insurance to Sharia capital markets. The presence of Sharia financial institutions has gained public trust and has been proven to contribute to the economic development of the people in Indonesia.*

Introduction

The presence of *Sharia* banking institutions is inseparable from the long history of Islamic civilization in regulating the economic aspects of people's lives and carrying out fair and transparent financial transactions. Since the Prophet Muhammad SAW accepted the Qur'an as a guide to human life, Islam has regulated the way of life for humans to be safe, one of which is the rules in the economic system, which prioritize the values of justice, balance, and benefit, for all humanity. *Sharia* finance is a financial system that operates by the principles of Islamic law, which include prohibitions against *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling). (Hasan, 2005).

The concept of *Sharia* managing an account started to be created within the 20th century of the expanding needs of *Muslims* who looked at an elective budgetary framework based on Islamic teachings. At its initiation, *Sharia* kept money motivated by the budgetary framework that existed within the Western world, but it was adjusted to agree with Islamic law. An important milestone within the history of the birth of *Sharia* managing an account was the foundation of the primary bank to function based on *Sharia* standards, which started in Egypt in 1963 with the foundation of *Mit Ghamr* Investment Funds Bank. At that point after that, the improvement of *Sharia* keeping money quickened, both in *Muslim*-majority and *Muslim*-minority nations. Malaysia, Saudi Arabia, and Indonesia play a critical part in presenting and creating the *Sharia* managing an account framework.

The need to change the banking financial system becomes important, considering the banking system in economic life. Modernism plays a pretty dominant role, especially in countries with *Muslim* populations. System changes are done by conceptualizing the banking system originating from interpreting basic Islamic concepts (Chapra, 2000). As a financial intermediary, Islamic banking institutions offer several products, both products which take the form of raising funds (funding), which includes *wadi'ah* and *mudharabah*, distribution of funds (financing), such as buying and selling (*murabahah*, greetings, and *istishna'*), *ijarah*, profit sharing (*musyarakah* and *mudharabah*) as well as other services (services) based on *Sharia* principles, such as *hiwalah*, *rahn*, *kafalah*, and *sarf*. *Sharia* banks in Indonesia initially faced significant challenges, especially regarding public understanding of *Sharia* banking products and services. However, through education and the development of products that suit the needs of *Muslims*, *Sharia* banking is starting to show significant growth. Through supportive policies, the Indonesian government also plays a role in accelerating the growth of this industry (Maulana, 2019).

National economic development over the last few years has shown significant improvement. Several supporting factors, including the development of *Sharia* banking institutions, cause this. *Sharia* banking has become an important part of Indonesia's economic development as a banking system based on Islamic principles. The existence of sharia financial institutions in Indonesia began to develop in the 1990s; in fact, the institutional concept existed long before that. The birth and development of *Sharia* financial institutions in Indonesia are influenced by various factors, both nationally and internationally.

The presence of *Sharia* banking in Indonesia was officially recognized through the ratification of Law No. 7 of 1992 concerning Banking, which was later updated with Law No. 21 of 2008 concerning *Sharia* Banking. The existence and emergence of *Sharia* Banking continue to experience development after being supported by Indonesian economic regulations; its existence has gained trust among society, with the development of *Sharia* institutions at the beginning of the establishment of *Sharia* Banks, the growth and development of *Sharia* economic institutions at the micro level, such as in the form of *Sharia* cooperatives, financing, is increasingly visible *Sharia*. *Sharia* financial institutions impact the banking sector and contribute to the Indonesian national economy by providing fairer and more transparent financing alternatives (Salim, 2019).

The acceptance of Indonesian people towards financial institutions based on *Sharia* principles is increasing, which is in line with the increasing awareness of the importance of an economic system based on ethics and Islamic principles (Fatimah, 2017). Likewise, what happens in the Sharia capital market in Indonesia, which is experiencing rapid development, is that many companies are listed on the Indonesian stock exchange with products that are in accordance with *Sharia* principles (Sutrisno, 2020). The existence of *Sharia* banking has made an important contribution to the economic development of *Muslims* through financing in accordance with *Sharia* principles, such as avoiding usury and excessive speculation. *Sharia* banking also plays a role in increasing financial inclusion in Indonesia by providing services that are easily accessible to the *Muslim* community (Akhmad, 2010).

Sharia banking in Indonesia continues to experience rapid development in terms of the number of banks, products, and supporting infrastructure. Various *Sharia* financial institutions are now the main alternative in Indonesia's modern and developing financial system; as explained b Asy'ari (2018), ith government regulations and assistance from Bank Indonesia, many conventional banking systems have opened *Sharia* business units to attract customers. Based on the explanation that has been described, this article aims to describe and analyze the history of the birth of *Sharia* banking institutions and their contribution to the economic development of the ummah in Indonesia.

Method

This research was used by literature review methods and historical reviews based on relevant books and journals. This research was conducted from November to December 2024. Data was collected by reading, extracting, describing, and documenting the data from various sources, such as books and journals about the history of the development of Sharia banking in Indonesia. In order to answer the research objectives, the data collected is analyzed descriptively and qualitatively, using the Milles and Huberman analysis model, with analysis stages, namely data reduction, data presentation, and concluding/data verification (Sugiyono, 2018).

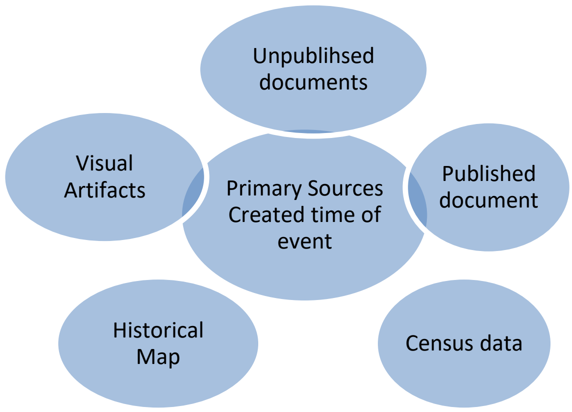

Figure 1. Historical research flow diagram
Source**:** Sugiyono (2018).

Result and Discussion.

Result

Sharia Banking Ideas in Indonesia Banking

Policy reform in the banking sector began in 1983. That year, Bank Indonesia gave commercial banks authority to determine their interest rates. The government hopes that establishing new banking sector policies will encourage banking progress and benefit the national economy. In the same year, the Indonesian government also planned to implement a profit-sharing system in the lending process, an idea adapted from the *Sharia* economic system sourced from the principles of Islamic teachings. In 1988, the government launched a set of regulatory changes on Banking 1988 called Act 88. This policy aims to expand opportunities for establishing a banking business system to support development, with the content of liberalization of the banking system. Since the regulation was established, many conventional banks have been born, and several community banking services with *Sharia* principles have also begun to develop.

The idea of establishing Islamic banking in Indonesia began in 1980. This began with a discussion of Islamic economic activities. Establishing an Islamic bank as a national economic milestone is an important part of efforts to realize economic development and the welfare of the *Ummah*. As an experiment, the concept of Islamic banking began to be implemented in small-scale and limited businesses, such as in Bandung with the establishment of Bait at Tamwil or BMT Salman ITB and in Jakarta with a *Sharia* Business Unit with a profit-sharing system under the name of the Rido Gusti Cooperative.

The establishment of Islamic banks in Indonesia was initially not well received because it was considered related to the fundamentalist movement that had the potential to establish a religion-based state. In addition, the Indonesian Banking Law (UUPI) does not regulate or provide opportunities for interest-free commercial bank operations. The law is the Basic Banking Law No. 14 of 1967 Chapter I, which requires every loan transaction to be accompanied by interest. In 1970, A.M. Saefuddin and several other figures were strongly concerned about the emergence of the Islamic economic movement in Indonesia. In the 1980s, he attended the first international conference on Islamic economics in Mecca. In the early 1980s, A.M. Saefuddin and other figures tried to introduce and campaign for the importance of running an economy with Islamic principles. This *Sharia* economic movement developed rapidly, and then a discussion on *Sharia* economics was held at the Islamic University of Bandung (UNISBA) in 1983 (Choiruzzad, 2012).

After the conference at UNISBA Bandung, the community and academics together began to implement the idea of Islamic banks on a small scale, such as the establishment of Bait at-Tamwil Salman at the Bandung Institute of Technology, which was carried out by a group of students and began to carry out its activities on July 4, 1984, as well as the Ridho Gusti Cooperative in Jakarta. The existence of non-bank financial institutions that apply *Sharia* principles with this profit-sharing practice shows that the Indonesian people need an alternative to the presence of Islamic financial institutions to complement the services of conventional financial institutions that have existed before (Choiruzzad, 2012).

The development of *Sharia* Business Units with profit-sharing systems such as cooperatives or BMT shows good performance. The *Bait At-Tamwil* Salman Cooperative achieved an asset of 1.5 billion rupiah from an initial capital of IDR 34 million. However, in 1989, this cooperative was closed because it faced problems in financing. The development of *Sharia* Business Units with profit-sharing systems such as cooperatives or BMT shows good performance. The *Bait At-Tamwil* Salman Cooperative achieved an asset of 1.5 billion rupiah from an initial capital of IDR 34 million. However, in 1989, this cooperative was closed because it faced problems in financing. The development of Islamic banking in Indonesia began with the emergence of People's Credit Banks (BPR), whose business activities are based on Islamic principles, especially the profit-sharing system. In 1988, BPR *Berkah Amal Sejahtera* started its activities in a sharia manner. Then, in 1991, there were three BPRs that also ran their businesses based on *Sharia* principles, namely BPR *Berkah Amal Sejahtera*, BPR *Dana*

Mardhatillah, and BPR *Amanah Rabbaniyah* (Bank Indonesia, 2016).

In 1990, the Indonesian Ulema Council (MUI) established a working team to establish an Islamic Bank in Indonesia. The Indonesian Ulema Council held a bank and banking interest workshop from 18 to 20 August 1990 in Cisarua, Bogor, West Java. The workshop results were further discussed at the Fourth National Conference of the MUI in Jakarta from 22 to 25 August 1990, which resulted in recommendations for forming a working group on establishing Islamic banks in Indonesia. This team is known as the Banking Team of the Indonesian Ulema Council, which is tasked with approaching, discussing, and consulting various related parties. (Otoritas Jasa Keuangan, 2024)

As a result of the efforts of the MUI Banking Team, it was agreed to create the first Islamic bank in Indonesia, PT Bank Muamalat Indonesia (BMI), established according to its deed of establishment on November 1, 1991. BMI officially started banking business activities with *Sharia* principles on May 1, 1992, with an initial capital of IDR 106,126,382,000. (Otoritas Jasa Keuangan, 2024)

The establishment of BMI was not spared from the efforts of the Indonesian *Muslim* Scholars Association (ICMI). ICMI is a driving force that strongly influences Indonesian *Muslims* because it is chaired by Prof. BJ. Habibie, who then served as the Minister of Science and Technology. At that time, Habibie was also considered a confidant of President Soeharto since the late 1980s. Habibie himself set the establishment of an Islamic bank as one of ICMI's agendas. Initially, the team that came to President Soeharto proposed two names for the first Islamic bank: Bank *Muamalat* Islam Indonesia and Bank *Muamalat* Indonesia. President Suharto's chief asked, "*Muamalat* means Islam too, doesn't it?" If it is already Islamic, then Bank *Muamalat* Indonesia is it." Finally, the name Bank *Muamalat* Indonesia was chosen. (Anisaa et al., 2019)

The Birth of Sharia Banking in Indonesia

The founding of Bank Muamalat Indonesia in 1991 was the beginning of Indonesia's Islamic financial institutions. Establishing this bank marks the beginning of Indonesia's transition to a financial system based on Islamic principles. In the past, several *Muslim* academics who wished to establish a more equitable and exploitation-free economic system had started to present the idea of Islamic banking. Other Islamic financial institutions, including Islamic banks, Islamic insurance, and the Islamic capital market, started appearing following Bank *Muamalat* Indonesia's founding. Law No. 21 is one of the legislation the Indonesian government has issued to assist the growth of the Islamic banking sector.

Islamic banks did not get much attention in Indonesia's financial sector when they started operating. Legislation No. 7 of 1992's mention of "banks with a profit-sharing system" was the only mention of the legislation underpinning Islamic banks' operations at the time; it lacked specifics about *Sharia* law and the kinds of enterprises permitted. The presence of two banking systems in Indonesia—conventional banking and Islamic banking—was explicitly established in Law No. 10 of 1998, which was amended by the Government and the House of Representatives in 1998. The emergence of numerous new Islamic banks, including Bank IFI, Bank Syariah Mandiri, Bank Niaga, Bank BTN, Bank Mega, Bank BRI, Bank Bukopin, BPD Jabar, and BPD Aceh, among others, demonstrated how eagerly the financial community embraced this opportunity. (Otoritas Jasa Keuangan, 2024)

The ratification of various laws that provide legal certainty and encourage the development of the Islamic financial market, including (i) Law No. 21 of 2008 concerning

Islamic Banking, (ii) Law No.19 of 2008 concerning State *Sharia* Securities (*Sukuk*), and (iii) Law No. 42 of 2009 concerning the Third Amendment to Law No. 8 of 1983 concerning VAT on Goods and Services. With the enactment of Law No. 21 of 2008 concerning Islamic Banking on July 16, 2008, the legal foundation for developing the Islamic banking industry in Indonesia is getting stronger and will accelerate its growth. With impressive developments, which have recorded an average asset growth of more than 65 percent per year in the last five years, it is expected that the role of the Islamic banking industry in supporting the national economy will increase (Otoritas Jasa Keuangan, 2024).

Development of *Sharia* Banking in Indonesia

Since the establishment of Bank Muamalat Indonesia in 1991, public trust has grown well, so that Bank *Muamalat* has grown. This was proven during the monetary crisis when many Conventional Banks experienced setbacks and collapsed because they were affected by the monetary crisis; at that time, Bank *Muamalat* was able to go through the monetary crisis well; it can be said that Bank *Muamalat* was not affected by the monetary crisis. Since then, Islamic banking has continued to grow rapidly with the emergence of other Islamic banks such as Bank Syariah Mandiri (BSM), Bank Negara Indonesia Syariah (BNIS), and Bank Rakyat Indonesia Syariah (BRIS), so *Sharia* Banks are increasingly mushrooming. In addition, since the development of the Islamic banking system in Indonesia, more and more progress has occurred in supporting institutions and infrastructure, regulatory tools and supervision systems, and public awareness and literacy of Islamic financial services. (Otoritas Jasa Keuangan, 2024)

The birth of the *Sharia* Banking Law has encouraged an increase in the number of *Sharia* Commercial Banks (BUS) from as many as 5 BUS to 11 BUS in less than two years (2009-2010). The Islamic financial system is one of the best and most complete internationally recognized systems. At the end of 2013, the authority to regulate and supervise banking was transferred from Bank Indonesia (BI) to the OJK. Thus, the supervision and regulation of Islamic banking are also now under the OJK. Since June 2015, the Islamic banking sector has given birth to 12 *Sharia* Commercial Banks, 22 *Sharia* Business Units owned by Conventional Commercial Banks, and 162 BPRS. The total assets reached IDR 273.49 trillion with a market share of 4.61%. For the DKI Jakarta Province area, total gross assets, *Sharia* loans, and third-party fund development reached IDR 201.39 trillion, IDR 85.41 trillion, and IDR 110.50 trillion, respectively. (Otoritas Jasa Keuangan, 2024)

OJK, as the Financial Services Authority, continues to improve its vision and policy strategy to develop the Islamic financial sector in accordance with the guidelines for Islamic banking. The Islamic banking development plan previously outlined in the Indonesian Sharia Banking Roadmap 2015-2019 has reached its final point. In order to continue the development of Islamic banking by considering various challenges, opportunities, and strategic issues, the Roadmap for the Development of Indonesian Islamic Banking for the 2020-2025 period was prepared with the aim of creating Islamic banking that is resilient, competitive and makes a significant contribution to the national economy and social development.

This Islamic banking development plan has been prepared in line with several policies, both external at the national level, such as the National Medium-Term Development Plan (RPJMN) 2020-2024 and the Indonesian *Sharia* Economic and Financial Masterplan 2019-

2024, as well as OJK's internal policies, namely the Indonesian Financial Services Sector Masterplan and the Indonesian Banking Development Roadmap (RP2I). As part of RP2I, this document is a strategic step by the OJK to harmonize the development of the Islamic economy in Indonesia, especially in the Islamic financial services sector in Islamic banking. The Indonesian *Sharia* Banking Development Roadmap is designed to be a driving force in accelerating Islamic banking development in the country, and it has three main focuses. This includes strengthening the identity of Islamic banking, collaboration in the Islamic economic ecosystem, and increasing licensing, regulation, and supervision (Otoritas Jasa Keuangan, 2024).

This document represents a strategic initiative by the OJK within the framework of the Indonesian Banking Development Roadmap, aimed at harmonizing the trajectory of *Sharia* economic development in Indonesia, particularly within the Islamic financial services sector, focusing on Islamic banking. In 2021, Bank Syariah Indonesia (BSI), the largest *Sharia* Bank in Indonesia, was officially established and commenced operations on February 1, 2021. BSI emerged from the merger of three state-owned Islamic banks: PT Bank BRI Syariah Tbk (BRIS), PT Bank BNI Syariah (BNIS), and PT Bank Syariah Mandiri (BSM). Bank Syariah Indonesia boasts assets totaling IDR 245.7 trillion and core capital amounting to IDR 20.4 trillion. With these substantial figures, this Islamic bank ranks among the top ten banks in Indonesia by assets, specifically occupying the seventh position. (Otoritas Jasa Keuangan, 2024)

Table 1. Roadmap the Birth of History of *Sharia* Banking in Indonesia

No	Year	RoadMap of History Sharia Banking in Indonesia
1.	1980	Small Discussion and Formation of BMT Ridho Gusti
2.	1984	BMT Ridho Gusti Develops
3.	1991	Establishment of Bank Muamalat Indonesia
4.	1992-2008	Strengthening of the Islamic Banking through the Law No 7. 1992
5.	2008-2021	The birth of Banking Law No. 21 of 2008 strengthens the Islamic banking system and grows rapidly Islamic financial institutions
6.	2021	Strengthening Sharia Banking and Merger of BUS into BSI

Table 1 explains the historical road map for the birth of *Sharia* Banks with Islamic principles. This started with concerns and discussions about the importance of Islamicizing economic activities. It first emerged as an answer to these concerns by establishing BMT at ITB. The birth of Sharia banking institutions cannot be separated from the role of figures, including AM Saefuddin, MUI, and ICMI, whose central figure is Prof. Dr. BJ. Habibie, until it was established by the Indonesian government, which, at that time, was approved by President Suharto with the name Bank *Muamalat* Indonesia, continued to develop, strengthened by the *Sharia* banking law, marked by the rapid growth of BUS and UUS until it became Bank Syariah Indonesia.

***Sharia* Banking Contribution to the *Ummah* Economy in Indonesia**

The establishment of *Sharia* banking gained momentum with the MUI Law and *Fatwa*, which stated that *Sharia* banking operates as an economic framework based on Islamic legal principles. This development reflects a shift in how the Indonesian *Muslim* community perceives economics; they now view saving money, conducting transactions, and using *Sharia* banking services as acts of worship. *Sharia* banks are expected to play at least three significant roles in the future. Firstly, they will help fund those involved in the halal product market. Secondly, they will ensure that all entrepreneurs have access to banking services. Lastly, they will be equipped to handle large-scale and international transactions, as noted by the Vice President of the Republic of Indonesia on November 19, 2021 (Kemensetneg, 2021).

Microeconomic Contribution to Banking

Islamic banking has made a significant contribution to the microeconomy in Indonesia. By providing banking services based on *Sharia* principles, Islamic banking has helped increase financial inclusion for the community and become an alternative solution for the Indonesian people, guaranteeing the certainty of transparent *Sharia* micro-business development with a profit-sharing system and other benefits. *Sharia* Financial Institutions play an important economic role, especially in supporting Micro, Small, and Medium Enterprises. They have a strategic function in realizing economic growth, especially in providing financing support to the business sector, and have the capacity to reach micro-business actors with *Sharia* principles.

Increased Financial Access

Islamic banking has increased financial access for the community, especially in rural and urban areas. By providing banking products that suit the community's needs, Islamic banking has helped improve people's economic capabilities. Through Sharia cooperatives and *Baitul Mal wa Tamwi*l, rural communities can more easily access savings and loan services, business financing, and investment by Sharia principles. The cooperative and *Baitul Mal Wa Tamwil* function as a financial institution that allows members to support each other financially without usury, providing opportunities for farmers, fishermen, and small entrepreneurs to develop their businesses.

MSME Development and Economic Empowerment

Islamic banking has been crucial in developing Micro, Small, and Medium Enterprises (MSMEs). This can be seen in Sharia Business Units, such as Sharia cooperatives and *Baitul Mall wa Tamwil*. The contribution of Islamic banking to the growth of MSMEs positively impacts community economic empowerment. They make it easier for MSME actors to get access to financing and encourage independence in sustainable business management. Thus, the MSME sector has the potential to grow faster, open up job opportunities, and improve the quality of life of the community, especially in areas that are underserved by conventional banking. This is part of Islamic banking initiatives to create a fairer and more inclusive economy for all levels of society.

Increasing Awareness of the *Ummah's* Economic Understanding

Muslims in Indonesia are becoming more aware of the importance of saving and transacting in Islamic banking and understand that these activities have worship value. Islamic banking provides an opportunity for *Muslims* to manage their finances in accordance with Islamic sharia principles. In this system, every step taken in saving or transacting, such as investment or financing, is carried out to obtain the blessings and pleasure of *Allah SWT*.

This is a strong foundation that encourages *Muslims* to switch to Islamic banking as a choice that is more in line with religious guidance. Through this awareness, *Muslims* in Indonesia are increasingly motivated to manage their finances in a way that is not only worldly and profitable but also by religious teachings. Islamic banking provides an alternative that allows *Muslims* to maintain spiritual values at every financial step. Thus, financial transactions are not only economic activities but also part of worship that brings us closer to *Allah SWT*.

Table 2. The Contribution of *Sharia* Banking to the Economy of the People in Indonesia

No	Contribution of Sharia Banking to the Ummah economy	Explanation
1.	Microeconomic Contribution to Banking	Sharia banking provides microeconomic financing services
2.	Increased Financial Access	Reaching financial access to rural areas
3.	MSME Development and Economic Empowerment	Establishment of *Sharia* business unit institutions
4.	Awareness of Understanding Islamic Economics Activities in *Sharia* banking are worth worship	Activities in *Sharia* banking are worth worship

Discussion

After the birth of the first Islamic bank, Bank *Muamalat* Indonesia, this bank is increasingly trusted and has a place in the hearts of the Indonesian people, especially the Muslims. The development is excellent; during the monetary crisis, Bank *Muamalat* was not adversely affected by the occurrence of the monetary crisis. This has triggered the mushrooming of *Sharia* Commercial Banks and Sharia Units in Indonesia. In 2021, several *Sharia* Commercial Banks with state-owned status, including BSM, BNIS, BTNS, and BRIS, merged to become Bank Syariah Indonesia (BSI). The birth of Bank Syariah Indonesia is one example of the rapid development of Islamic financial institutions in Indonesia. Since the merger of Bank Syariah Mandiri, Bank BRI Syariah, and Bank BTN Syariah, BSI has become a major player in Indonesia's Islamic banking industry, which has a strong system and assets (Wibowo, 2021).

Islamic banking and *Sharia* banks have significantly contributed to the Ummah's economic development through financing services, investment, and distribution of *Zakat, Infaq/Sedekah*, and *Waqf*. Contributions to the economic empowerment of the *Ummah* have increased awareness of the *Ummah* in Indonesia regarding halal economic transactions and increased the *Ummah's* understanding that activities in *Sharia* banking are worth worship, avoiding *usury*, *gharar*, and *maysir*.

The *Sharia* banking industry plays an important role in driving the rate of economic growth in Indonesia, especially during the Covid-19 pandemic; this can be done by growing the investment sector through third-party funds and increasing the financing provided to the public (Ilfa et al., 2021). During the COVID-19 pandemic, *Sharia* banking conditions continued to grow, as indicated by the 2021 Gross Domestic Product (GDP) data based on current prices reaching 16,970.8 trillion and GDP per capita reaching 62.2 million. In this case, the national economy in 2021 was able to grow by 3.69%, which was higher than the achievement in 2020, which experienced a growth contraction of 2.07%. This growth occurred in almost all business fields (Safitri et al., 2021). Islamic banking contributes positively to national economic growth and can support the economy of the Indonesian *Muslim Ummah* and society in general. The growth trend during the COVID-19 pandemic shows that Sharia banking is able to survive such difficult times and contribute to improving the national economic order (Hukmi, 2023).

Conclusion

The history of the birth of *Sharia* banking in Indonesia cannot be separated from the role of figures and the desire of the Indonesian *Muslim Ummah* to carry out economic activities based on Islamic principles. The birth of Bank *Muamalat* Indonesia is an alternative answer as a solution to the concerns and desires of the majority of *Muslims* in Indonesia. The birth history began with a small discussion, the formation of an interest-free sharia business at ITB from 1980 to 1984, then the implementation of MUI deliberations, and the establishment of Bank *Muamalat* Indonesia in 1991. The enactment of Banking Law No. 7 of 1992 strengthened the birth of *Sharia* Bank No. 10 of 1998. *Sharia* banking has made a significant contribution to the development of the *Ummah's* economy; this can be seen from the rapid growth of *Sharia* Commercial Banks, *Sharia* Business Units, micro-business financing, increasing financial access, development of MSMEs, empowering the *Ummah's* economy and increasing awareness of the *Sharia* economy.

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