

# Investment Decisions in The Interbank Money Market Based on Islamic Principles

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**Submission date:** 06-Feb-2020 03:57PM (UTC+0700)

**Submission ID:** 1252478713

**File name:** Opcion.pdf (635.58K)

**Word count:** 3496

**Character count:** 19717

# opci3n

Revista de Antropología, Ciencias de la Comunicación y de la Información, Filosofía,  
Lingüística y Semiótica, Problemas del Desarrollo, la Ciencia y la Tecnología

Año 35, 2019, Especial N°

# 20

Revista de Ciencias Humanas y Sociales

ISSN 1012-1587/ ISSN-e: 2477-9385

Depósito Legal pp 198402ZU45



Universidad del Zulia  
Facultad Experimental de Ciencias  
Departamento de Ciencias Humanas  
Maracaibo - Venezuela

# Investment Decisions in the Interbank Money Market Based on Islamic Principles

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## Abstract

This study aims to investigate investment decisions in the interbank money market based on Islamic principles via a qualitative method with the type of phenomenological research. As a result, the most influential factors on manager behavior in investment decision making, including economic determinants, psychological determinants, social environmental determinants, determinants of organizational culture and ethos determinants of Islamic work. It can be concluded that the behavior of current treasury managers is not in line with the expectation of using monetary instruments rather than interbank money market instruments based on sharia principles so that the market is not deep.

**Keywords:** Investation decision; Manager of Treasury Banking.

Recibido: 10-03-2019 • Aceptado: 15-04-2019

## *Decisiones de inversión en el mercado monetario interbancario basadas en principios islámicos*

### **Resumen**

Este estudio tiene como objetivo investigar las decisiones de inversión en el mercado monetario interbancario basado en principios islámicos a través de un método cualitativo con el tipo de investigación fenomenológica. Como resultado, los factores más influyentes en el comportamiento del administrador en la toma de decisiones de inversión, incluidos los determinantes económicos, los determinantes psicológicos, los determinantes socioambientales, los determinantes de la cultura organizativa y los determinantes del trabajo islámico. Se puede concluir que el comportamiento de los administradores de tesorería actuales no está en línea con la expectativa de utilizar instrumentos monetarios en lugar de instrumentos del mercado monetario interbancario basados en los principios de la sharia, de modo que el mercado no sea profundo.

**Keywords:** Decisión de inversión; Gerente de Banca de Tesorería.

### **1. INTRODUCTION**

Since 2011, banks have begun to show a tendency to place their excess liquidity on sharia monetary instruments issued by Bank Indonesia (BI), namely Bank Indonesia Sharia Certificates (SBIS) and Bank Indonesia Syariah Deposit Facility (FASBIS) rather than invested in <sup>2</sup> Interbank Money Market instruments Based on Sharia

**Principles** (PUAS), namely Mudharabah Intercity Investment Certificate (SIMA) and Commodity Trading Certificate Based on Sharia Principles (SIKA), seen in the table below: The growth of sharia money market activity, both volume and frequency of transactions, indicates the increasing demand for short-term liquidity of sharia banking (Ismal, 2015; Bentley & Bossé, 2018).

From the description above it can be seen that the bank as a business entity has a business scope that is universal banking, which includes commercial banking and investment banking. But for sharia banking in principle is different from conventional banking, the difference is for example in regulation about liquidity control pattern, calculation of capital adequacy and so on. However, in the Syariah money market, why do banks treasury managers prefer monetary instruments rather than PUAS instruments? Is BI as an authority in the money market to approach market needs with market-oriented? Namely to explore the market by asking in advance the desire of the bank then made the product or BI do a product-oriented approach?

Meaning that BI immediately issued a product of the Interbank Money Market Based on Sharia instruments such as SIKA which was not responded positively by market participants. Therefore, a study of the behavior of managers of banking treasury is required, because the main function of a manager is very strategic. According to Najmudin (2011) the main functions of managers are as follows: First, collect funds from the financial market called the decision of financing. Second, invest a fund called capital budgeting or investment decision. Third, generate funds from efficient operations and allocate the resulting funds to be reinvested or to pay cash dividends called dividend decisions. The main task of a banking treasury manager is to



maximize welfare for stakeholders through increasing shareholder value investments, minimizing risks and ensuring sufficient liquidity.

Investment decisions are an important factor in the financial function, that corporate value is solely determined by investment decisions. The statement has significance because to achieve the company's goal of maximizing wealth shareholders will only be generated through corporate investment activities (Hidayat, 2010). In the research of Staw and Ross (1989) found the factors that influence manager behavior in decision making:

1) Economic factors are factors related to profit and economic value, such as the level of profit, liquidity and so forth.

2) Psychological factors are internal factors that arise from within man, for example, the level of risk taking, achievement motivation, confidence and so forth.

3) Social environmental factors are environmental factors in which the decisions are taken also consider the impact on the company's social environment, such as social status, leadership pressure and so on.

4) Organizational culture factor is a factor related to the culture of an organization in which there are internal environments such as values and objectives, organizational structure, supervision system and so on an external environment such as socio-cultural changes, business relationships, and so on.

Then in addition to these four factors there is an ideal factor that is considered important in influencing human behavior is ethics, and

ethos is the practical level as the implementation of ethics. If ethics relates to how norms drive society, then ethos is concerned with the attitude of society in accepting and implementing those norms. The opinions of Ali and Owaihan in ethical Islam derived from Al-Quran and Hadith, then emerged which is called with the work ethic of Islami. In order for managers to make informed decisions accurate information through a study, and according to Anshori and Iswati (2009) argue in relation to business, there is a tendency for complexity that can increase the risks associated with business decision making. Therefore, it is necessary to have a solid information base. Increased complexity also means that more and more variables must be considered.

Every banking including sharia banking must maintain a high level of liquidity in order to anticipate customer's withdrawal of funds, one means of maintaining liquidity is through the money market. In this case, BI has made the rules of the money market, including sharia money market, in order to fulfill short-term fund needs and utilize idle temporary funds to be invested in the money market. BI has issued Bank Indonesia Regulation No 18/11 / PBI / 2016 concerning the Money Market. These regulations include PBI on JIBOR, PBI on Money Market Instruments, and PBI on Interbank Money Market with Sharia Principles.

The money market is a financial market that facilitates short-term debt securities trading that is less than a year, and Islamic (sharia) money market is a financial market <sup>2</sup> based on sharia principles. The money market is not in the form of the building but the place of securities transactions (Meilani, 2014), this market is abstract no physical, traded are short-term securities, transactions conducted in

Over The Counter (OTC), occur usually begun by phone Then executed on each dealing room.

Instruments available in the money market in the form of securities include Sovereign Debt Instruments, State Sharia Securities, Bank Indonesia Certificates, Bank Indonesia Sharia Certificates, Repurchases (Repo) SBIS, Reverse Repo State Sharia Securities and Facilities Bank, Indonesia Sharia. The instrument is all used by the BI channel as a central bank in order to implement its monetary policy. While instruments outside of monetary operations are Money Market Money Certificates, these instruments are used by conventional banks in the Conventional Money Market. The instruments of Interbank Money Market Based on Sharia Principles are Mudharabah Interbank Investment Certificate and Commodity Trading Certificate Based on Sharia Principle, both of these instruments are used by all banks (Yang et al., 2019; Soo et al., 2019; Fujo & Dida, =2019)

Certificates of Bank Indonesia Sharia (SBIS) hereinafter referred to as SBIS are securities based on short-term sharia principles in rupiah currency issued by Bank Indonesia to absorb excess rupiah liquidity in the market in order to stabilize monetary. Technically, the SBIS is issued on a contract basis through auction mechanism and Bank Indonesia shall reward the issued SBIS. Characteristics of SBIS are (PBI No. 10/11 / PBI / 2008):

- a) Unit of Rp 1,000,000.00 (one million rupiah);
- b) A period of at least one month and a maximum of twelve months;



- c) Published without scripless;
- d) Maybe woken to Bank Indonesia; and
- e) Cannot be traded in the secondary market

This certificate for banks with excess funds is used as a means to obtain profits and help banks that require funds by buying commodity goods from sellers who need funds, in this case, the seller publishes SIKA, on the other hand, this certificate is used for banks that are under-funded to get fund Short term with murabaha principles. This SIKA is regulated through Bank Indonesia Circular Letter Number: 17/28 / DKMP 2015, which contains general terms, characteristics of SIKA, mechanism of issuing and completion of SIKA transactions, reporting and closing provisions. The important point of calculating SIKA profit is calculated based on margin. The difference between sharia and conventional money market can be submitted as follows:

No.	Sharia Money Market	Conventional Money Market
1.	Using sharia contract: mudharabah, murabaha, musharaka, ju'alah, wadiah, qardh, and wakalah	Using a debt contract
2.	Performers of sharia banking and conventional banking	Performers are just conventional banking

Table 1: Differences in Sharia and Conventional Money Markets

Source: Pengantar Kebanksentralan, 2014

The basic activity of managers is managing the decision making in the investment, funding and operations of a business institution (Helfert, 1997). Thus a business institution is a financial system driven

by management decisions. Decision-making by managers is the best selection process from several alternatives, then followed up or used as a way of solving problems. Decision-making is a series of mental processes that a person does in determining the way out for the problems he faces. The definition of decision-making itself is something that the chair of an organization does to take action or a choice for the common good (Robbins & Marry, 2005; Reyazi & Aghaei, 2017).

According to Terry et al. (1994) that a manager in evaluating choices makes a decision based on the following techniques:

1.) Marginal analysis. The technique compares the extra costs and earnings that come from adding a unit again. Maximum profit point is the volume where for the last unit added, the additional revenue is equal to the extra cost. At any smaller volume, marginal revenue exceeds the marginal cost and at any larger volume, then the marginal cost exceeds the marginal revenue.

2.) Theory of psychology. Many issues that a manager must decide, are uneconomical. Decisions about the extent of an office, for example, may be influenced by psychological values. Other examples include decisions based on the individual decisions of a member of management, clinging to the devices of traditions, upheld by the highest managers, or the desire for greatness for mere greatness.

3.) Intuition (whisper of the heart). Decision-making based on intuition, characterized by the use of inner feelings of the person making the decision. It may be a kind of sixth sense, a deep feeling

about the situation, or an unfathomable conviction in a situation. Sometimes that intuition is a feeling, almost instantaneously, that action must lead to certain outcomes already stated. This decision-making process may not be very rational, not according to established patterns. Maybe intuition exists, to some extent, in most decision-making. It does not always produce satisfactory results, but it is quick to make decisions.

4.) Experience, problem-solving requires experience. Experience provides guidance, helps to discriminate, and helps generalize the past. Practical knowledge is used and is usually followed by the acceptance of that decision by others. Some people assert that believing inexperience makes people too conservative in making decisions. Changed circumstances, successful decision-making in the past, do not necessarily guarantee future success. Experience should be used, but a manager does not need to be tied to it.

5.) Following the leader, a large number of decisions are made by following and in some ways replicating the decisions that the leader has made. Usually, when this practice is followed, major decisions are made. Patterned decisions are the result of the practice of following the leader.

6.) Experiment, try that option first and see what happens, can it be useful in deciding what path to go. This is the basis for decision making commonly used in scientific investigations and in new product plans and developmental work. Testing sales receipts in selected markets, before stepping on the national level, provides a good illustration. Conducting experiments is relatively expensive, and it is based on the assumption that the future will repeat things that have already occurred.

7.) The analysis, the decision of whether to be taken under certain circumstances and can be taken by breaking the problem over its various components and examining each component separately and also in relation to other components. Thus, the critical facets of decision-making are forward-looking, and causal relationships, as they affect goals, are determined. In many ways, answers or questions are used to assist in the analysis. That approach minimizes the facts that are considered central to the decision until the special things are the most important. The ability to make matters into a concept is an important step in this approach.

8.) Quantitative methods, in recent years there has been an increasing trend toward the use of quantitative methods in making management decisions. These methods illustrate 1. A broad viewpoint sometimes referred to as the term system view -the views of systems, 2. Identification and measurement of objectives, 3. Quantification of all pertinent factors concerned, 4. Use of mathematical abstraction models, which show patterns of relationships in quantitative terms, 5. Optimization or minimization of a particular function, such as expenditure efficiency, 6. Regular thinking and logical methodology.

As a solution for aligning the behavior of decision makers it is recommended by Staw and Ross in Kreitner and Kinicki:

1). Set a minimum number of targets for performance, and ask decision makers to compare their performance against a set number of targets.



2). Appoint different decision-makers to make early and next decisions about a project (goals).

3). Encourage all decision makers not to engage the ego with a project (less ego involved).

4). Provide more and more often re-enter the project completion phase to its cost.

5). Reduce the risk or penalty for failure.

6). Make decision makers be alert to fixed costs ignoring the failure signals (costs of persistence).

Then in addition to these four factors there is a factor of spiritual motivation proposed by Chapra (1999) that Max Weber's thinking about the developing western world is not driven by consumptive motivation, but born of motivation based on creative value which he calls the work ethos, this is in line with the concept of Motivation in Islam.

## **2. METHODOLOGY**

This study, according to the analysis, applies the qualitative method of phenomenological study type to build and collect data or information from the behavior of banking treasury manager at inter-bank money market, which is performed under the phenomenological principle according to Islamic principle. This phenomenological principle is to understand the symptoms and phenomenon deeply as faced. The data is collected during an interview with the banking treasury manager and Bank Indonesia in its capacity as the authorized party and regulator at Islamic Money Market. The instrument used is

interview directory. Meanwhile, the step of data analysis performed while in progress and afterward, namely data reduction by categorizing according to data characteristics, data presentation, and data verification by means of data sources triangulating and conclusion.

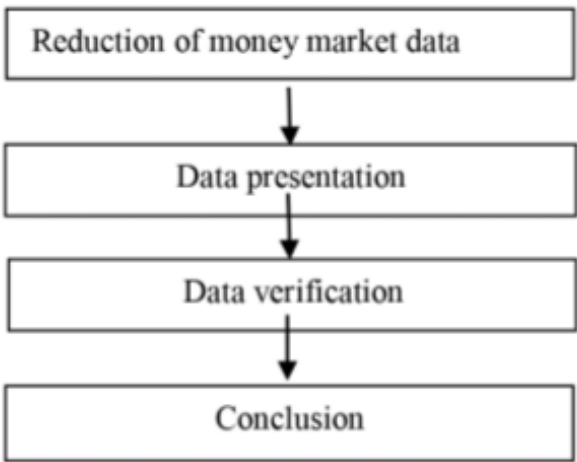


Figure 1: Systematic Interview  
Source : Developed for this study

3. RESULT AND DISCUSSION

The monetary policies of Bank Indonesia are to deepen the money market so that the management of rupiah liquidity is maintained so as to increase domestic financial market resilience to external shocks. Bank Indonesia as the money market and foreign exchange market authority targets by 2024, the value of money market transactions reaches a range of 15-20 percent of Gross Domestic

Product and in the foreign exchange market reaches 3 percent of the value of foreign trade, when the targets are achieved Shows that Indonesia's foreign exchange and money market is functioning well, and able to support deepening in capital market.

#### 4. CONCLUSION

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It can be concluded that the behavior of current treasury managers is not in line with the expectation of using monetary instruments rather than interbank money market instruments based on sharia principles so that the market is not deep. The concept of Islamic economy actually encourages more transactions in PUAS so that no funds can be settled but directly channeled into the real sector. Based on the contemporary phenomenon of some previous research results and interviews with banking treasury managers, <sup>2</sup> the most influential factors on the behavior of treasury managers in making investment decisions are economic factors, psychological factors, social environmental factors, organizational culture factors and work ethic Islami factors.

As a solution to the above problems, Islamic monetary policy can be applied to encourage market participants, in this case, the treasury manager to run the business, especially to meet the market liquidity requirement for more transactions on the interbank money market. Then the monetary authority needs to further deepen the money market with the following strategies: 1. Regulatory and standardization improvements, 2. Institutional strengthening, 3.

Enrichment of instruments and expansion of the investor base, 4. strengthening of market infrastructure, 5. Education and socialization.

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Revista de Ciencias Humanas y Sociales

Año 35, N° 20, (2019)

Esta revista fue editada en formato digital por el personal de la Oficina de Publicaciones Científicas de la Facultad Experimental de Ciencias, Universidad del Zulia.  
Maracaibo - Venezuela

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Recibido: 10-03-2019 • Aceptado: 15-04-2019

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