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Economical rights versus God's rights: criticising of the implementation Shariah economic in Indonesia

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Muhammad Syauqi Bin-Armia and Muhammad Siddiq Armia
State Islamic University of Ar-Raniry, Banda Aceh, Indonesia, and

Muhammad Fazlurrahman Syarif
College of Islamic Studies, Hamad Bin Khalifa University, Qatar Foundation, Doha, Qatar

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Abstract

Purpose – This study aims to evaluate the impact of Law No. 11 of 2018 on Islamic Financial Institutions in Aceh, Indonesia. It also aims to understand the balance between the economic rights of individuals under Shariah law and the broader concept of God's rights, as interpreted by this legislation. In addition, the research argues that the implementation of Law No. 11 of 2018 is untimely, with a focus on examining its influence on the cumulative abnormal return (CAR) of Shariah banks and its slight contribution to the direct economic impact.

Design/methodology/approach – This study adopts a mixed-methods approach that integrates qualitative and quantitative analyses. The qualitative aspect uses a black-letter law approach for legislative scrutiny, whereas the quantitative aspect assesses economic indicators and firm performance using an event study analysis. The study also includes a two-tailed assessment to test hypotheses related to the law's direct impact on institutional performance.

Findings – The study reveals that Law No. 11 of 2018 had minimal impact on national-scale corporate performance and a notable increase in poverty indices in Aceh, indicating a potential misalignment between the law's intention and its economic consequences. The results also show the law's ineffectiveness in significantly influencing the CAR of Islamic banks, highlighting a clash of norms and a lack of substantial economic substance in the implementation of Shariah compliance.

Research limitations/implications – This research is geographically and legally focused on Aceh, Indonesia, with a short-term analysis that may not fully capture the long-term impacts. It primarily considers the stock price performance of specific institutions for quantitative analysis and identifies potential clashes and disharmony-in-law implementation from a qualitative perspective.

Practical implications – The findings suggest the need for legal frameworks that better comply Shariah principles with economic realities. Regional governments should consider modifying policies to balance religious values and economic objectives.

Social implications – This research highlights the importance of balancing religious obligations with economic rights, indicating that strict interpretations of religious law can lead to adverse socioeconomic effects.

Originality/value – This study is unique in its comprehensive analysis of the convergence between religious law and economic rights, offering insights into the challenges faced in implementing Shariah-based economic policies in diverse economies, such as Indonesia.

Keywords Economical rights, Sharia, Poverty, Aceh

Paper type Research paper

Introduction

Aceh is the only province in Indonesia that has experienced an unusual Islamic finance industry (IFI). Bank account holders were forced to complete two bank account conversions,

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the former due to the implementation of Law No. 11 of 2018 and the latter as a consequence of three Islamic state-owned banks merging into the Shariah Bank of Indonesia (Bank Syariah Indonesia – BSI) (Lestari *et al.*, 2021; Syamsuri *et al.*, 2021; Yusmalinda, 2023). This merger offers a promising future for economic leaps. However, this occurrence created tensions owing to the instability of the new banking network system and the complexity of the conversion process (Utamy and Basri, 2020). The bank account holders needed to proceed with the procedure in the post-implementation period and data renewable post-merger period. These processes are adverse to people's interests, who reside in rural areas and spend money only to come to the branch. Law No. 11 of 2008 on Islamic Financial missed some technicalities. Moreover, the IFI was left behind to solve its technical problems.

The main objective of Law No. 11 of 2018 was not only justice achievement but also prosperity (Miranda and Snower, 2020), economic development (Ibraheem *et al.*, 2013) and regional revenue (Cupian and Abduh, 2017). Economic rights are part of the objective derived from the prosperity objective. Economical rights refer to activities that lead to economic gain within a particular period. Nevertheless, since the implementation of Law No. 11 of 2018, the regional government has been unable to provide adequate means to support the law to achieve the main objective. There are plenty of articles that are fragmentary and attached to the unconcluded provincial regulation as the integral of Law No. 11 of 2018, which might lead to confusion among people.

This article responds to the discussion on observing the authorisation of God's rights over the economic rights of the people in Law No. 11 of 2018 on Islamic financial institutions. The outcome of this research is to recontextualise the implementation of another type of God's rights that might potentially clash with people's rights.

This research aims to critically analyse the impact of these changes on both the economic performance and social fabric of Aceh, focusing particularly on the experiences of rural bank account holders, who were adversely affected by the conversion processes. The primary stakeholders in this research are Islamic financial institutions, regional government policymakers and residents of Aceh, especially those in rural areas who face logistical and financial burdens due to banking transitions. Also, this research investigates whether the intended goals of justice, economic development and increased regional revenue have been met, and explores the practical challenges faced by residents during these transitions. The implications of this study are far-reaching, as they may influence future legislative processes and the strategic planning of financial products and services within Islamic financial institutions in Indonesia and similar global contexts.

The qualitative and quantitative approaches will be adopted. The authors used two methods to ascertain the objective results when discussing the impact of law implementation. Our study explores the correlation between institutional performance (Shariah banks) and the practical and economic impact of Law No. 11 of 2018. On the qualitative side, we emphasise three main theories, which were derived from the law's objective: prosperity, regional revenue and economic development.

Literature review

Indonesian Government has issued several unmeasurable policies and regulations that led to the crisis (Hughes and MacDonald, 2002). Particularly, Fahmi (2023) state the significant impact of Law No. 11 of 2018 on Islamic financial institution in Aceh has led to monopolistic environment by significantly limiting competition from conventional banks, yet reducing diversity and influence market competitiveness, consumer choice and effectiveness of financial service. The implementation of this law requires financial institutions to operate based on Sharia principles, marking a shift towards Islamic finance in the region (Budiman, 2021).

Consequently, people in Aceh have had to adapt to changes in banking transactions, including saving behaviours (Fadhli and Johan, 2023).

Law No. 11 of 2018 is the perfect representation of political intervention in an unmeasurable economic impact. Aceh economy mainly relied on the small-medium enterprise (SME) level. This economic scale is dependent on two factors: financing facilities and direct regional regulations (Yusmalinda, 2023). Therefore, this law is highly impactful. When the law is implemented, the SME level will face significant turbulence and may diminish revenue dramatically (Irmiyanti *et al.*, 2017). Therefore, the regional government should recontextualise the law and Sharia fulfilment to cater to the issue and offer a series of support postimplementation periods.

The impact of Law No. 11 of 2018 on Islamic Financial Institutions in Aceh, Indonesia has been significant. This law, also known as the Qanun LKS, has provided special rights exclusively for Islamic banking institutions, leading to the conversion of all conventional banks in Aceh Province into Islamic banks (Fahmi, 2023).

The conversion of conventional banks to Islamic banks in Aceh has been a strategic response to the sustainability reporting regulation, complying with stakeholder demands and contributing positively to the development of the Islamic economy and finance, including the Islamic capital market in Aceh and nationally (Esteban-Arrea and Garcia-Torea, 2022; Amanatillah, 2022). This transformation has also impacted the stability and soundness of Islamic banks, with findings suggesting that certain board characteristics such as the presence of independent nonexecutive directors can influence financial soundness (Khalil and Slimene, 2021; Khalil, 2021).

Moreover, the implementation of Law No. 11 of 2018 has implications for the development of Islamic banks in Aceh, with studies indicating that the law has contributed to the growth of Islamic financial institutions in the region (Alamsyah and Amri, 2021). The law has also been linked to the effectiveness of bank conversion decisions, with various schemes being used by Islamic banks in response to the enactment of this regulation (Pambuko and Pramesti, 2020).

The research justified as the critical evaluation of the significant socio-economic impacts of Law No. 11 of 2018 concerning Islamic Financial Institutions in Aceh, Indonesia. This law represents a unique intersection of religious principles and economic policies which makes it a compelling subject for analysis. The research aims to explore the balance between individual economic rights and the broader concept of God’s right as interpreted by the legislation. Given the importance of understanding economic and social outcomes behind the religious laws implementation, this topic not only timely but also essential for future policy decisions.

The research sample was carefully selected to include Islamic Financial institutions in Aceh, as these institutions are directly affected by Law No. 11 of 2018. The focus on these institutions allows for a detailed examination of the law’s impact on their Cumulative Abnormal Return (CAR) and overall performance. In addition, the choice to analyse poverty and economic indicators in Aceh provides a broader understanding of the law’s socio-economic consequences. By focusing on a geographically and legally specific area, making it crucial case study for similar regions considering or currently implementing Shariah law in their economic frameworks.

Based on the aforementioned discussions, this article examines the following research questions: Does the implementation of the law of Islamic Financial Institutions No. 11 of 2018 influence economic development? If so, to what extent do the effects of this implementation affect industries? How do economic rights and God’s rights coexist?

Methods

This research pursues the discussion on the motivation behind the implementation of Law No. 11 of 2018, its association with the selected Islamic banks and the investigation of the interrelation between potential disharmony across sectors. The adopted methodology using mix-methods, qualitative and quantitative.

The qualitative methodology of this research is conducted by using the *black-letter law* approach when engaging the legal research (Glichrist and Coulson, 2015). The term *black-letter law* relates to the standard element that basically becomes undeniable common knowledge and is widely accepted.

The quantitative aspect of this research uses event study analysis by deploying two-tailed assessments to examine the hypotheses. Banks' effectiveness is pictured from abnormal return (AR). The returns adopted in this research are:

- Actual returns, and will be computed as follow:

Equation (1). Actual return

$$R_t = ln\left(\frac{P_t}{P_{t-1}}\right)$$

where:

R_t = bank return at time;
ln = the natural logarithm;
P_t = bank share price at time; and
$P_{t\text{-}1}$ = bank share price at t-1 respectively.

- Expected returns, with the following equation:

Equation (2). Expected return

$$R_{it} = \alpha_i + \beta i R_{mt} + \varepsilon_{it}$$

where:

R_{it} = daily actual return from Banks i on day t;
α_i = *the intercept term*;
β_i = *the systematic risk of stock i (slope coefficient)*;
R_{mt} = *is the market index return on day t (using Jakarta composite index)*; and
ε_{it} = *this is an error term for price i at day t which equal to zero*.

- AR, and will be calculated as follow:

Equation (3). AR

$$AR_{it} = R_{it} - (\alpha_i + \beta_i R_{mt})$$

where:

AR_{it} = *the abnormal return of stock bank i on day t*;
R_{it} = *the actual return of stock bank i on day t*;
α_i = *the intercept term*;
β_i = *the systematic risk of stock i (slope coefficient)*; and
R_{mt} = *is the market index return on day t (using Jakarta composite index)*.

- CAR will be quantified as follow:

Equation (4). CAR

$$CAR_{(T1,T2)} = \sum_{t=T1}^{T2} AR_{it}$$

where:

$CAR_{(T1,T2)}$ = CAR on stock price of bank I in event period. *T1* the first and T2 is the last day of event period.

The event in this research was the implementation date of the law, on 4 January 2019. The event periods for this research were pre-event, event and post-event. To compute the expected return, the estimation window was set from 10 to 99 days before the implementation date. The hypotheses of this study are as follows.

Null hypothesis:

H_0: $\beta_1 = 0$ *the law has no effect on cumulative abnormal return before implementation date*;

H_0: $\beta_2 = 0$ *the law has no effect on cumulative abnormal return on implementation date*; and

H_0: $\beta_3 = 0$ *the law has no effect on cumulative abnormal return after implementation date*.

Alternative hypothesis:

H_1: $\beta_1 \neq 0$ *the law has effect on cumulative abnormal return before implementation date;*

H_1: $\beta_2 \neq 0$ *the law has effect on cumulative abnormal return on implementation date; and*

H_1: $\beta_3 \neq 0$ *the law has effect on cumulative abnormal return after implementation date.*

To assess the hypothesis, we applied two-tailed (*t*-statistic and *t*-table) analysis and computed as follows:

Equation (5). Cumulative average abnormal return (CAAR)

$$t_{CAR} = CAAR_{it} / \left(\sigma(CAR_{it}) / \sqrt{\mathrm{N}} \right)$$

where:

t_{CAR} = *t*-statistic for the CAR;

$CAAR_{it}$ = *CAAR* at time *i*;

σ = Standard deviation of CAR at time *t*; and

N = total no. of observations.

A total of 64 degrees of freedom should be applied to achieve a significant level. (df = $n - 1$, where $n = 100$).

Data collection will be recapitulated from the quote history of selected Shariah banks listed on the Indonesian Stock Exchange (IDX) that operate in Aceh. The authors determined that Indonesian Rupiah (IDR) was the currency used. The necessary data are divided into two parts: the share prices of the banks and the Jakarta composite index.

Findings

Quantitative approach on the influence by law of Islamic financial institution no. 11 of 2018

Some argues it increases in the Islamic financial industry (Alfi, 2021). However, implementation by law is not as smooth as imagined. There is a big question to the government: are the implementations by law No. 11 of 2018 worthy of pay-off?

This section investigates the influence of the implementation date (4 January 2019) on the AR of selected financial institutions listed in the stock market by using event study analysis. The research sample comprises institutions chosen from three categories. (a) Islamic banks that operate in Aceh and are listed on the IDX, (b) Islamic banks that operate outside Aceh the day of implementation and are listed on IDX, (c) the conventional Banks that have Shariah Banking Windows and used to operate in Aceh, are also listed on IDX.

The two Islamic banks that operate outside, or actively operate in Aceh a few years later, that is, BTPS (Mufti, 2023), it still needs to be covered for a comparative reason to financial institution development in Aceh.

The Table 1 provides an explanation of the sample of banks mentioned.

Table 1. The sample of the banks from three categories

No.	Name of bank	Code
Category 1: Islamic bank operates in Aceh and listed on IDX		
1.	Bank Syariah Indonesia (formerly as bank BRI Syariah)	BRIS
Category 2: Islamic banks operate outside Aceh and listed on IDX		
1.	Bank BTPN Syariah	BTPS
2.	Bank Panin Dubai Syariah	PNBS
Category 3: Conventional banks that have Shariah banking windows and used to be in Aceh		
1.	Bank BNI (former Shariah unit was BNI Syariah)	BBNI
2.	Bank Mandiri (Former Shariah unit was Bank Syariah Mandiri)	BMRI
3.	Bank BCA	BBCA
4.	Bank CIMB Niaga	BNGA
5.	Bank KB Bukopin Syariah	BBKP
6.	Bank BTN	BBTN
7.	Bank Sinarmas	BSIM
8.	Bank Permata	BNLI
9.	Maybank	BNII
10.	Bank Danamon	
BDMN		

Source: Financial Service Authority, 2024

The estimation window is between 10 and 100 days prior to the implementation date, and the index is adopted as the Jakarta Composite Index (IHSG). These two factors are required for the calculation of expected returns. Whereas, to determine the event windows, there will be three tiers:

- Tier 1 called pre-event window (between −3 days to −1 day before the implementation date);
- Tier 2 called the event window (between day one to +1 of the implementation date); and
- Tier 3 called the post-event window (between +2 days to +3 days of the implementation date).

Meanwhile, for the hypothesis, both the null and alternative hypothesis will be examined by using two tailed: *t*-statistic and *t*-table test. For the selected observation period, the study focused on the examination between first of August 2018, end of March 2019. The motivation behind this selection is the economic atmosphere at the time when many parties predicted that the implementation by the Law of Islamic financial institutions will flourish after the day. Thus, the authors would like to see how economically significant the performance of the banks listed in the sample is. The following table explain the significance date of by law the implementation date No. 11 of 2018:

The Table 2 exhibits the list of two significance dates of the by law No. 11 of 2018 that become the basic discussion of this research. Since the implementation date significantly closed to the new year and the beginning of semi-annual economic activities of the firms. Hence, this date will be projected to have a massive impact on institutional performance.

The analysis of the abnormal return on the implementation date

Category 1. Islamic bank operates in Aceh and listed on Indonesian stock exchange. This section presents the performance of the three categories of selected banks on their returns that contain the expected return, actual return and AR. As explained previously, the focus

Table 2. Significance date of the by law no. 11 of 2018

	Significance date	
1.	Date of issuance	28th December 2018
2.	Implementation date	4th January 2019

Source: Produced by authors

will be on AR and average abnormal return (AAR). From there, these returns will be gathered based on the different event windows: pre-event, event and post-event. Then, using specific criteria that will be explained subsequently, these returns show how far the significance level could have an impact.

Figures 1–3 show a significant difference in the trend. Where the expected return does not show the distinctive level between three window periods. While Figure 2 for actual return and Figure 3 for AR look promising movement at the post event window. To provide a

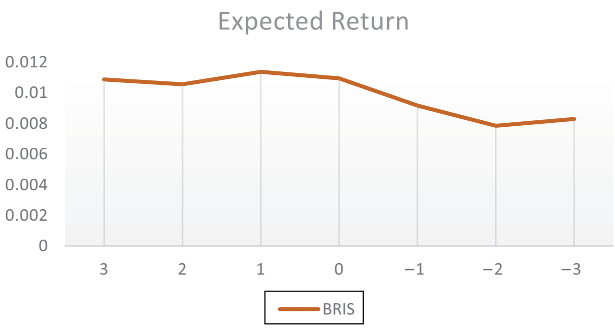

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Figure 1. Expected return of Category 1

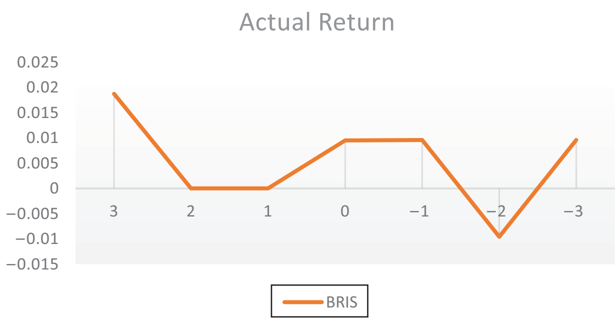

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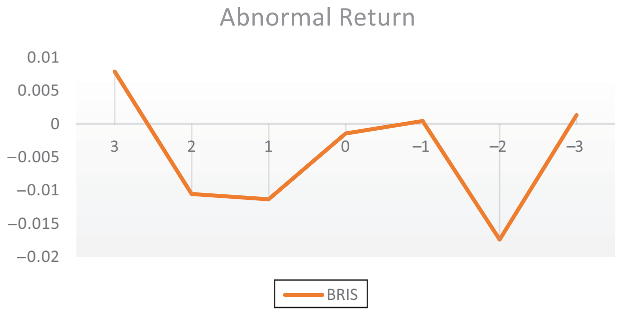
Figure 2. Actual return of Category 1



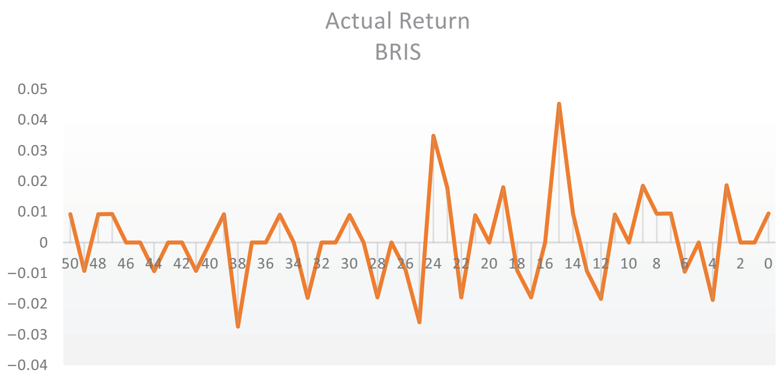
Source: Produced by authors

Figure 3. Abnormal return of Category 1

holistic picture of Category 1, the authors exhibit a comprehensive actual return from day 1 to day 50 of the implementation date.

Figure 4 shows the significant impact of BRIS after the implementation date. The performance of the institutions showed a tremendous record since the authorities announced the new law in late 2018. In a similar vein, the fact has been confirmed by Baiquni (2019), he argued that the conversion of the conventional asset to Islamic institution could boost the performance in all aspect of the Banks. Hence, for the first category, implementation by law of Islamic Financial Institutions No. 11 of 2018 provides a robust impact of return.

Category 2. Islamic banks operate outside Aceh and listed on Indonesian stock exchange. This part will display the expected return, actual return and AR from three respective event windows: pre-event, event and post-event. Performance is projected to be relatively stable, with a lower effect on the implementation date. This is because the selected banks were outside Aceh and were likely to have an indirect impact on their activities. To provide a better look at the returns, here are the three distinctive levels of each return from this category.



Source: Produced by authors

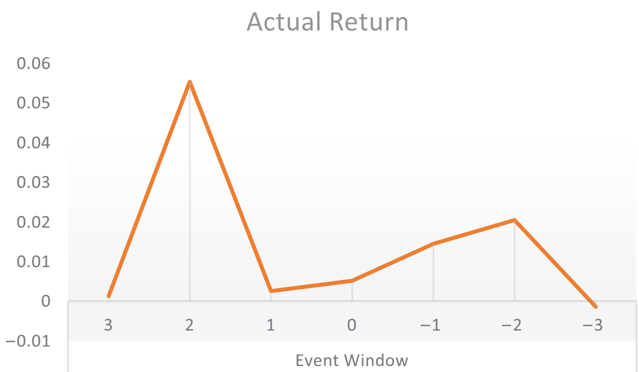
Figure 4. The actual return of BRIS (only bank in this category)

Figures 5–7 show fascinating facts. Even though the new law would not be expected to have substantial consequence to the banks' performances as shown in Figure 5, it likely had a good movement for Figure 6 Actual Return and for Figure 7. Abnormal Return. The emergence of a new law with massive media intervention brought fresh enthusiasm to the table. The post-event window for instance, it showed dramatical rose that higher even before. This signalled that the atmosphere of this new regulation might be a solution for the new Islamic financial industry deadlock at that time (Yusmalinda *et al.*, 2022).

Category 3. Conventional banks that have shariah banking windows and used to be in Aceh. The discussion in this section is even more interesting. This category emphasised the conventional banks that impacted the implementation of the firm, even though they had their own Shariah banking unit. From this perspective, the authors aim to explore the significance of Sharia banking units in responding to the implementation compared to their home

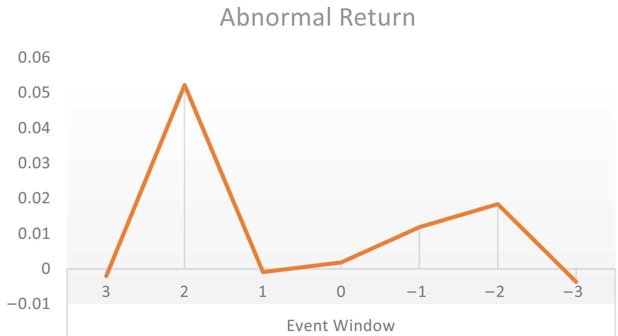
Source: Produced by authors

Figure 5. Expected return of Category 2



Source: Produced by authors

Figure 6. Actual return of Category 2



Source: Produced by authors

Figure 7. Abnormal return of Category 3

institutions (the conventional one). Thus, to obtain a better picture, there are three distinctive levels of each return from this side:

The subsequent Figures 8–10 show unusual trends in Category 3 compared to the previous one. In both Categories 1 and 2, the expected return moves in the opposite direction to the actual and ARs. Whereas the Category 3 showed fascinating movement from the AR in Figure 10 compared to Figures 8 and 9 which has parallel movement. The ARs of this category showed a significant decrease in conventional bank performance. Although these banks have solid Shariah banking units, they are not supportive of their main business. The declining trend in the post-event window is most likely due to the termination of the SME financing product because of implementation by law. According to Astuti *et al.* (2014), the SME sector participated most in the Indonesian economy, specifically during the crisis. From this fact, the Shariah banking units at the conventional banks suffered the most when Law No. 11 of 2018 was implemented. Shariah banking units are not as free as Shariah commercial banks, as they can easily penetrate the market. It must pass some parents' company considerations (conventional banks) before implementing and developing the product. This hypothesis should be tested to strengthen

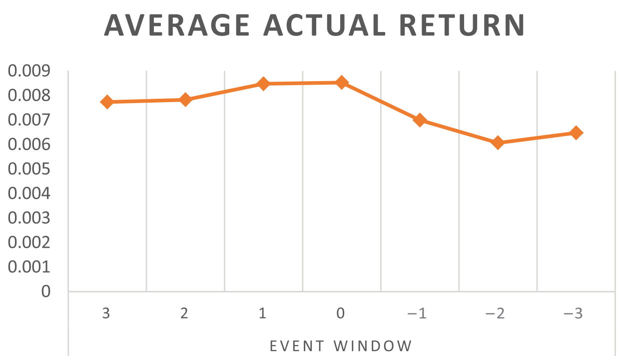


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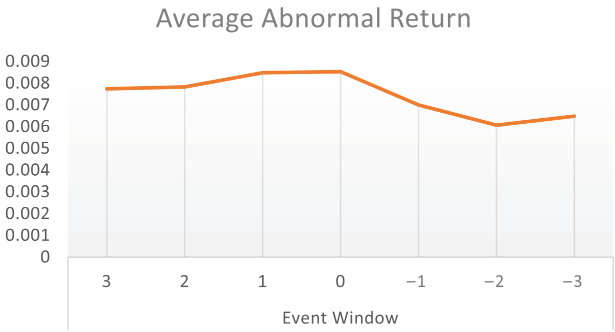
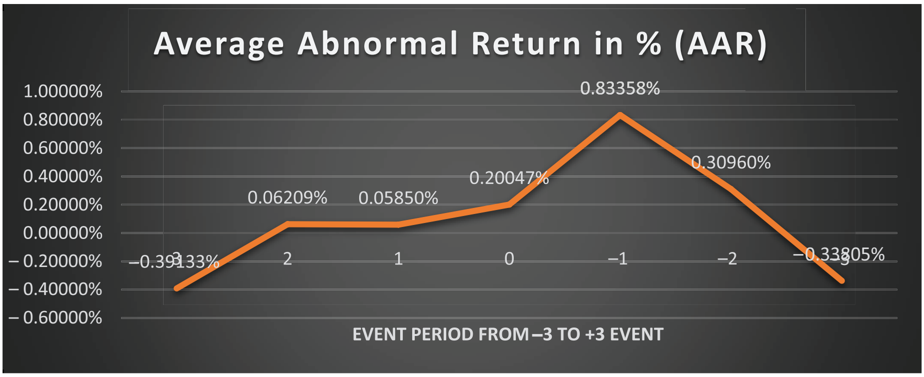
Figure 8. Expected return of Category 3



Source: Produced by authors

Figure 9. Actual return of Category 3



Source: Produced by Authors

Figure 10. Abnormal return of Category 3

the analysis. Thus, to reject the null hypothesis, this study used a two-tailed analysis test. The criteria for the previous test were as follows.

The next step is to explain the probability significance level of the *t*-table mentioned in the Table 3 between 1%, 5% and 10%. The computation is as follows.

Subsequent move is to calculate the AAR of three categories with the *t*-stats of three event windows: pre-, event and post-event. After defining the *t*-table in the Table 4, it is critical to

Table 3. Decision criteria

Criteria	Decision
-*t*-table ≤ *t*-stats ≤ *t*-table	Cannot reject *H0*
t-stats < -*t*-table	Reject *H0*
t-stats > *t*-table	Reject *H0*

Source: Produced by authors

Table 4. Level of significancy

T-table		
N	= 13	
df ($n-1$)	= 12	
Critical value (10% significant level)	= 2.91998558	(two-tailed test)
Critical value (5% significant level)	= 2.17881283	(two-tailed test)
Critical value (1% significant level)	= 3.054539589	(two-tailed test)

Source: Produced by authors

compute the CAAR with the *t*-stats of three distinct levels of the event window: pre-event, event and post-event explained in the Table 5. The calculation results are as follows.

The two-tailed test conducted before the research concluded the hypothesis in the Table 6, either accepted or rejected. Consequently, the following criteria were used.

Thus, all categories of banks are unable to reject the null hypothesis. Hence, the implementation date by lay No. 11 of 2018 for Islamic Financial Institutions has no association with the ARs of banks. However, to explore the significance level between ARs and events, this research assesses the AAR in the Table 7. The analysis as follow.

The results of the quantitative analysis are displayed at critical values of 10%, 5% and 1% of three distinctive windows (post-event, event and pre-event). Although there was a slight rise at the pre-event stage, the figure showed no significant impact on the ARs of all categories displayed in the Figure 11. This indicates that the implementation of Law No. 11 of 2018 had an insignificant impact on the financial sector that operates in Aceh. This is also a robust indication that the Shariah financial sector failed to seize the opportunity for legal implementation. The regional government projected that the Islamic financial sector in Aceh will intensely cheer up the economic level of the people alongside the financial "Islamisation," but the fact is all the way around. The situation arisen in the Acehnese financial industry faces unexpected reality and obstacles.

Qualitative approach and the discussion of findings

Theory 1: Economic development. The law No. 11 of 2018 is one of the most fundamental regulations directing the economic station to the better. However, it appears like a political product. Chowdhury and Dhar (2012) argued that political intervention may result in default problems in the banking system. This argument supported by Reaz and Arun (2005) where they emphasised that the political product in the banking sector will worsen the economic outlook to the future. Similarly, Johnston (2001) undoubtedly reasoned that the government's compliant intervention or any other political intervention will cause mismanagement and mass confusion.

Table 5. *t*-Statistic and cumulative average abnormal return

	Post-event (+2, +3)	Event (0, +1)	Pre-event (−3, −1)
t-Stats	−0.2605015213	0.55889822	0.5953680985
CAAR	−0.00329	0.00413	0.00805

Source: Produced by authors

Table 6. Result from hypothesis test

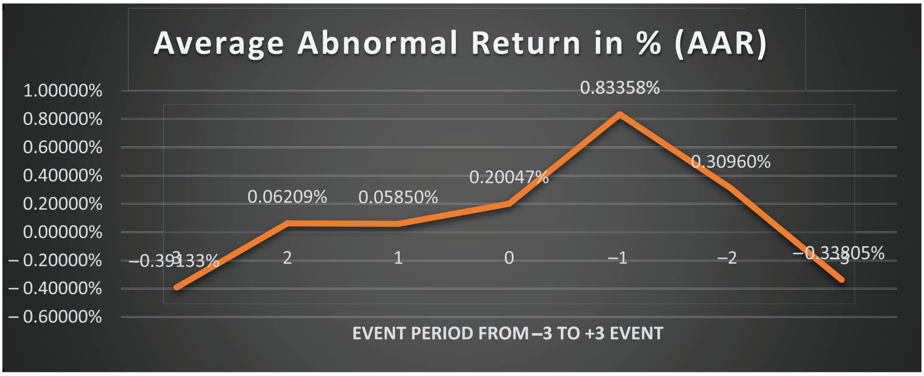
Analysis	Event window	*t*-stats	*t*-table	Comparison	Hypothesis decision	
If α = 10%	(−3, −1) pre-event	0.5953680985	2.91998558	*t*-stats < *t*-table	Cannot reject *H0*	The event not related to abnormal return
	(0, +1) event	0.55889822	2.91998558	*t*-stats < *t*-table	Cannot reject *H0*	The event not related to abnormal return
	(+2, +3) post-event	−0.260501521	2.91998558	*t*-stats < *t*-table	Cannot reject *H0*	The event not related to abnormal return
If α = 5%	(−3, −1) pre-event	0.5953680985	2.17881283	*t*-stats < *t*-table	Cannot reject *H0*	The event not related to abnormal return
	(0, +1) event	0.55889822	2.17881283	*t*-stats < *t*-table	Cannot reject *H0*	The event not related to abnormal return
	(+2, +3) post-event	−0.260501521	2.17881283	*t*-stats < *t*-table	Cannot reject *H0*	The event not related to abnormal return
If α = 1%	(−3, −1) pre-event	0.5953680985	3.054539589	*t*-stats < *t*-table	Cannot reject *H0*	The event not related to abnormal return
	(0, +1) event	0.55889822	3.054539589	*t*-stats < *t*-table	Cannot reject *H0*	The event not related to abnormal return
	(+2, +3) post-event	−0.260501521	3.054539589	*t*-stats < *t*-table	Cannot reject *H0*	The event not related to abnormal return

Source: Produced by authors

Table 7. Result from average abnormal test

Event	*t*-stats of AAR	*t*-table if α = 10%	Comparison	Description
−3	−1.120396965	2.91998558	*t*-Stats > *t*-table	Significant
−2	0.5270650624	2.91998558	*t*-Stats< *t*-table	Not significant
−1	0.8994734563	2.91998558	*t*-Stats< *t*-table	Not significant
0	0.3109938421	2.91998558	*t*-Stats< *t*-table	Not significant
1	0.0974418368	2.91998558	*t*-Stats< *t*-table	Not significant
2	0.05808778359	2.91998558	*t*-Stats< *t*-table	Not significant
3	−0.6172263776	2.91998558	*t*-Stats< *t*-table	Not significant

Source: Produced by authors



Source: Produced by authors

Figure 11. Average abnormal return of all categories (AAR)

Unfortunately, this happened after the implementation of Law No. 11 of 2018. In accordance with the aim of the regulation to create better economic development and prosperity for the people, the government did not avail of the opportunity and delayed supportive infrastructure. For instance, the policymaker formed the Acehnese Shariah Council (Dewan Syariah Aceh or DSA) in 2021 (Zairi, 2021) and the Regional Shariah Economic and Finance Commission (Komite Daerah Ekonomi dan Keuangan Syariah – KDEKS) in 2023, where the latter is a result of vice-president Ma'ruf Amin's pressures during his visit in Aceh (Farha, 2023).

Economically, before implementation, both DSA and KDEKS should be formed immediately. In the field, KDEKS availed their fresh appointment as a government board committee and did not start a prominent discussion on current regional economic instabilities, as narrated below:

> The appointment of Regional Shariah Economic and Finance Commission (KDEKS) in Aceh is a month ago, the last foremost meeting was about filling and forming the structural governance, nothing substantial to the Shariah regional economic (Law Infrastructure Director – KDEKS of Aceh).

Hence, these government institutions should address any Shariah economic issues and obstacles immediately during crucial time after implementation (Rahmawati and Putriana, 2020).

However, the policymaker left the people behind and let them seek the solution while obliging Law No. 11 of 2018 (Juli, 2020).

Point b of Article 5, stated by Law No. 11 of 2018, was projected to become the driving force of the Acehnese economy. Conversely, due to the instability of the regional industry in Aceh, with the occurrence of the national' Sharia banks merging into one institution (the BSI) in 2021 (Krismaya, 2021; Utari *et al.*, 2022), it was justified that this new law was produced not in advantageous moments. Muklir *et al.* (2022) elucidate that the law contributed insufficiently to the prosperity and economic growth of the people. Yusmalinda (2023) justified that the Islamic financial industry has a tight mechanism for financing scheme, particularly for the SME sector, with retaining the prudential policy and safety financing, to avoid default and keep the non-performing financing.

There are three main reasons why the law is unable to preserve its goals: Initially, the policymaker has insufficient resources for every person to socialise this law. As a result, it led to mass confusion about the necessary movement need to be taken (Bakri, 2020). Moreover, the lack of communication between policymakers and the financial industry. The transformation and upgrading within the industry were the most likely problems that occurred. Finally, there are severe communication skills to analyse Islamic financial industry, particularly the potential Islamic banks' merger. Therefore, this law is unable to preserve the basic need of client interest during the conversion (from the conventional to the Shariah banking system) and during the Shariah State-owned banks' merger (Muklir *et al.*, 2022).

Theory 2: People's prosperity. According to Miranda and Snower (2020), prosperity is divided into two categories: economic and social prosperity. The former is a state in which a person has sufficient material needs, whereas the latter is created from solidarity empowerment. Economic prosperity can be measured using statistical information. Social prosperity can only be recognised by a personal state of mind.

Juridically speaking, Law No. 11 of 2018 as a form of regulation meet all necessary requirement to become the new law. It is part of Law No. 8 of 2014 regarding the implementation of Shariah compliance. However, the points indicated by Law No. 11 of 2018 are being facilitated comprehensively in the Central Bank Regulation, particularly Regulation No. 11 of 2009 (Maulana, 2023).

From this finding, the authors suggest the potential of disharmony, clash of norms and incoherent substance with previous regulation No. 11 of 2019 and handbill No. 15 of 2013 of the Central Bank of Indonesia and Law No. 21 of 2008 about Shariah Banking with Law No. 11 of 2018 about Islamic Financial Institutions in Aceh. The authors find at least five points from Law No. 11 of 2018:

- Section No. 11 of article 1, by law No. 11 of 2018 state that "Other financial institutions, are the firm with no legal standing." This section might lead to ambiguity and misinterpretation due to the word "with no legal standing…" It seems that any financial firm could be formed and operated in Aceh without a need for a license. This section conflicted with the previous regulations No. 21 of 2008 in Article 5 and Central Bank regulations, where the Islamic financial institution is either bank (Islamic commercial bank, Islamic rural bank and Shariah banking windows) or non-bank institutions (Islamic financial house/firm).
- Section No. 25 of Article 1, by law No. 11 of 2018, states that Baitul Mal Aceh is the only government institution in Aceh that allows the exercise of social fund management on Zakat, endowment and other types of social religious funds. This article contradicted Law No. 21 of 2008, Section 2 of Article 4, which stated that Islamic commercial banks and Shariah banking windows are allowed to manage

social funds, including zakat, endowment, donation and other types of social religious funds.

- Article 3 of Law No. 11 of 2018, the principles mentioned were too broad and missed one of the most important principles in the banking sector, as mentioned in regulations No. 21 of 2008 and Central Bank regulations, is the prudential principle. Thus, post-implementation by Law No. 11 of 2018 attracted a series of system failures within the industry.
- Article 16 of Law No. 11 of 2018 states that Baitul Mal Aceh, under compulsory collaboration with Islamic commercial banks, facilitates the affordable financing of Shariah products to the SME sector using the Zakat, endowment, donation and other types of social religious funds. This article is incoherent with central bank regulation (Regulation No. 11 of 2019 and Handbill No. 15 of 2013). This is because Baitul Mal Aceh is not an intermediary institution regulated by the law of government.
- Law No. 11 of 2018 did not accommodate articles on corporate governance, prudential principles and risk management procedures. Whereas, the law No. 21 of 2008 and Central Bank regulations mentioned the procedure to manage the risk. This could lead to asymmetric information and governance between the financial institutions. Subsequently, the client who use the banking service will not being covered from risk.

The theory of prosperity, which became the outermost objective of Law No. 11 of 2018, as stated in Article 5, is unachievable. This is because the predominant economy is the microeconomic sector. Moreover, the industry levels in Aceh are on the SME scale (Nasir *et al.*, 2022; Utari *et al.*, 2022; Yusmalinda, 2023). Subsequently, there were detrimental trends in the distribution of Shariah financing across the region. Similarly, there was a slight downward trend in the poverty rate (Yusmalinda, 2023). Nevertheless, this justifies Law No. 11 of 2018 not contributing thoroughly to prosperity development.

Infrastructure inadequacy and equal rights opportunities are two major factors that promote prosperity. Law No. 11 of 2018 contains more articles that are yet to be completed. This refers to a demography where the southwest coast of Aceh is still far from successful (Zulkarnaini, 2022). This region undeniably has promising commodities in the natural resources and fishing industry. However, unequal Shariah financing access to support economic activities turn out to be the most disadvantageous aspect for the people who reside there (Irmiyanti *et al.*, 2017).

Theory 3 regional revenue. The regional government sets potential annual regional revenue to boost people’s prosperity. The regional revenue derived from its jurisdiction accumulated in three major parts: (1) taxation (regional tax and regional retribution) and (2) from non-taxation (regionally owned enterprises), and (3) Investment and other additional resources (Syafaruddin, 2002; Nasir, 2019). Considering Aceh’s legal status as an autonomous province, it is necessary to accelerate its regional revenue. Unless it is repealed and declared ineffective, the regional government has the authority to exercise any means of boosting regional revenue (Nasir, 2019). Aceh Government demanded that sufficient funds be distributed in major regional budget allocations, which has transformed its responsibilities from the central government to the regional government.

Observing regional revenue as an integral part of the law, one of the objectives of Law No. 11 of 2018 is to improve it in a better way. Point e of Article 5 stated the following:

> “The Islamic Financial Institution (that operates in Aceh) will push the improvement of Aceh Regional Revenue”.

Aceh Government aims to convert all revenue creation tools into Sharia compliance. There are at least three main reasons for this: initially is the philosophical reason, where the majority of people believe in Islam and Sharia compliance application in all aspects. The next reason is socio-logical, where to achieve prosperity and justice within the Shariah compliance, the financial institution needs to be Islamic. The last is a legal reason, where the regional government allowed them to regulate themselves in applying the Shariah compliance principle, on behalf of the central government (Lestari *et al.*, 2021).

One of the fundamental principles and foremost contained in Law No. 11 of 2018 is justice (*adalah*). The implementation of the law not only promotes the Sharia principle economic system but also achieves justice among people. Therefore, the transformation from a conventional economic system, which has been embedded in all aspects of life, to an Islamic economic system should apply the concepts of justice and income equality. Subsequently, the essence of implementing Sharia compliance should not be based on spiritual commitment, due to the consequences of a particular group's pressure on another. As a result, the whole new concept, predominantly the financial aspect of regulation, failed to achieve justice and income equality, while the conventional economic system remained. Some argue that justice can be achieved by forcing new regulations, that is, imposing high levies and using political pressure. However, these steps deteriorate the dignity of compliance with Sharia (Ayyub, 2007).

According to Utamy and Basri (2020), the justice concept should be based on equality and togetherness, and its ultimate objective is to create prosperity for people. The policymaker should offer justice alongside its regulation. Hence, promoting justice is not to overwhelm the power to exploit revenue and ignore the concept of equality and togetherness, because this is extremely incoherent.

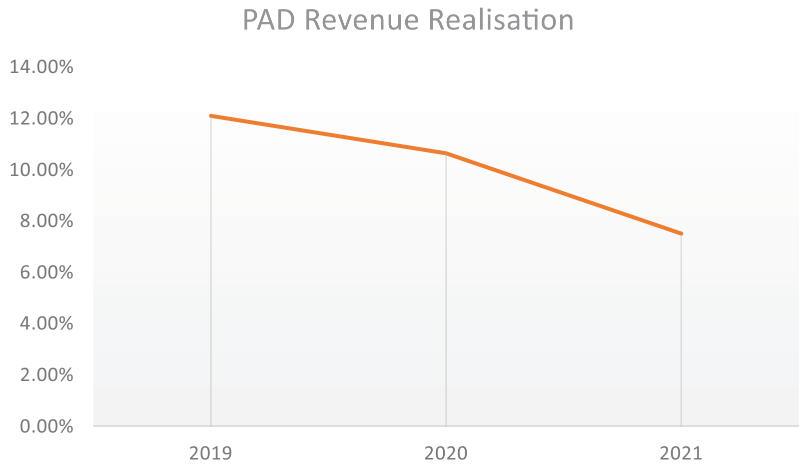
The revenue gain in regional provinces is sufficiently clear as the foremost objective of Law No. 11 of 2018. Starting from the date of its promulgation, Law No. 11 of 2018 failed to achieve its own objective as a regional revenue booster. According to a report issued by the Aceh Regional Office of Directorate General of Treasury, the Ministry of Finance stated that the regional revenue only contributed 7.51% in 2021, 10,64% in 2020 and 12.10% in 2019, from the total revenue realisation. For Figure 12 describes the data.

What occurred in Aceh recently was the occurrence of fiscal decentralisation management post-law implementation. Fiscal decentralisation is a state in which a region gains autonomous jurisdiction and allows the generation of its own revenue alongside budget allocation from the central government. Referring to Bodman and Hodge (2010), there is a significant positive correlation between regional revenue and fiscal decentralisation, where if the former rises, then the latter shows fiscal decentralisation independence from the central government. Thus, for those with lower regional revenues, detrimental management should be elucidated as an autonomous region.

The solid justification for fiscal decentralisation incapability is the emergence of a high poverty index. Regional government programs to tackle the high poverty index are still insignificant. Meanwhile the budget allocation for such programmes considerably increased annually. Regional government should preserve the priority programmes to be executed in the best way. This is vibrant, since the poverty rate in Aceh–Indonesia rose dramatically, where the poverty depth index and poverty severity index by region in Aceh province increased from 2.84% to 2.95% between 2018 and 2021 (Safaat *et al.*, 2022).

Discussion

The research critically evaluates the impact of the Law No. 11 of 2018 on Islamic financial institutions in Aceh, Indonesia. The study's objective was to understand the balance between



Source: Ditjen-Perbendaharaan, 2022

Figure 12. The regional revenue of Aceh 2019–2021 (in percentage)

the economic rights of individuals under Shariah law and the broader concept of God's right as interpreted by this legislation. The research aimed to evaluate the economic performance of Shariah banks through CAR analysis and assess the broader socio-economic consequences of the law.

The primary hypothesis was the implementation of Law No. 11 of 2018 would have significant impact on the economic performance of Shariah banks on the socio-economic conditions in Aceh. The objectives included:

- Analysing the law's impact on the CAR of Islamic banks.
- Assessing the socio-economic consequences of the law, particularly its effects on poverty levels and regional economic development.
- Understanding the clash between economic rights and God's rights as interpreted by Shariah.

As evaluated, the study found that the implementation of Law No. 11 of 2018 had minimal impact on CAR of Islamic Banks. However, there was a notable increase in poverty in Aceh, suggesting a potential misalignment between the law's intended religious objectives and its economic consequences. It also revealed that the law's implementation led to significant logistical and financial burdens for rural bank account holders, particularly due to conversion processes required by the law.

The hypotheses set the stage for the research objectives, which guided the data collection and analysis process. The result provided evidence to either support or refute the initial hypotheses, leading to targeted recommendations. This logical flow ensures that the recommendations are directly tied to the findings and address the core issues identified during the research.

As these consequences emerged, the following discussion on the misalignment summarised as following suggestions:

- The spiritual approach towards holistic banking transformation.

We argue that the by Law No. 11 of 2018 implementation is subject to be recontextualised. Our quantitative assessment discovers the spiritual believes' background is solely brought insignificant impact to sophisticated financial institutions. This due to the rationale background of the law. Instead of being economic resurrection, it appears as political decision imposed to other group of people and eventually be an indirect affliction. From this nuance perspective, we justify that the new approach in proposing a new comprehensive financial system into Shariah principle need to be cautious. This to ascertain the main principle within the law is still achievable. Hidayah *et al.* (2019) agreed that the spiritual perfection was struggling to mediates the accounting adaption religious interpretation. Thus, Law No. 11 of 2018 need to be bundled immediately with series complementary regional systems and tools:

- Bridging the disharmony gaps post-implementation period.

Our qualitative findings show three main theories, namely, Economic development, People's prosperity and regional revenue, as derived from the core principle of the law implementation, insufficiently mediate the objective. Technically speaking these theories elucidate opposite direction with delayed in implementing the principal tools that support by Law No. 11 of 2018.

The finding of our research provides the potential list of norms' clashes within the theory of prosperity, namely, misinterpretation, contradictive articles with former law, incoherent authority allocation and asymmetry information between the central government that encourage unequal wealth creation opportunity to the people. We also expand the discussion on the regional revenue as the part of last theory. The autonomous status of Aceh should trigger the independence wealth creation across sectors. Autonomous provinces should act as liberating factors to decentralise revenue creation. Spiritual and economic aspects are embedded in the financial industry to boost revenue and condense the industry to be more Islamic yet productive. However, regional revenue contributed less to the total income throughout the year. We show how Law No. 11 of 2018 insignificantly plays a role in navigating a way to become competitive and most influential province cross-region. This cooperates with Aceh Government's inability to decentralise its fiscal independence from the central government. Thus, this progressively influenced the rise of the depth poverty level (Safaat *et al.*, 2022):

- Reshaping the path to fulfil god's rights obligation while pursuing the spiritual perfection.

Islam as a holistic concept based on the Sharia principle. Islamic financial system offers a new approach to treating money and means of value creation (Ayyub, 2007). Thus, Islamic finance must guarantee that all transactions, technical procedures, fund management and agreements comply with Shariah. In addition, the substance of application of Shariah compliance was achievable. Islamic financial system promotes communal economic development rather than self-interested objectives (Fang, 2016).

There are two levels to fulfil Shariah: initially, the worship level (*ibadah*), which is strictly related to prayer, fasting, zakat and so on. The other level is ordinary affairs (*Muamalat)* (Ayyub, 2007). *Ibadah* has strict rules and conditions that need to be applied accordingly. Muamalat provides only the fundamental principle and leaves Muslims to decide on the application model. The theorem of *ibadah states* that there are no interventions and leaves the way of Allah as it is. However, *Muamalat's* theorem is based on both togetherness and tolerance. Subsequently, Islamic financial institutions might adopt the conventional mechanism if it does not violate the Sharia principle. The rule in Islamic legal maxims stated that conserving the advantageous relationship among believers is the highest objective, fulfilling the personal worship level. If God's rights confront muamalat activities, then the *muamalat* becomes a priority. Therefore, when implementing new regulations, policymakers must consider people's feedback rather than insisting on the implementation to fulfil God's rights (Ayyub, 2007).

Shariah governs these necessities. Scholars classified it into five objectives: preserving wealth, preserving offspring, preserving intelligence, preserving religion and preserving the soul. These objectives are commonly known as *maqashid shari'ah* or the objective of shariah (Ayyub, 2007). Therefore, this research highlights the challenges of synchronising spiritual objectives with economic outcomes under Shariah compliance. While the by-law aimed to reinforce spiritual adherence through financial practices, its economic impact was negligible.

This suggests the need for policy recommendations include developing a framework that incorporates economic feasibility studies along with religious considerations, ensuring that any new legislation is grounded in both spiritual integrity and economic pragmatism. The delayed establishment of the Acehnese Shariah Council and KDEKS post-law implementation indicates a gap in strategic planning. To bridge this gap, there is a critical need for immediate and robust institutional support systems that can facilitate smoother transitions when new laws are implemented.

Conclusion

This research argues that the implementation of Law No. 11 of 2018 is an untimely law. The law is unable to influence the CAR of the Shariah bank and contributed slightly to the direct economic impact. Through the theory of economic development, prosperity and regional revenue, which were derived from the core principle of Law No. 13 of 2018, insignificantly contributed to value creation. It shows some clashes with the previous regulations and disintegration. The holistic point of view of the recontextualisation of Sharia compliance implementation within the financial institution, where the conventional concept has been embedded for centuries, is the appropriate immediate action to undertake.

Regarding the recommendation, the authors suggest that the regional government should consider implementing support mechanisms to alleviate the socio-economic burdens caused by the law. This could include financial assistance programmes for those affected by the bank conversion processes and educational campaigns to increase public understanding of the law. For long-term impact analysis, further research should be conducted to analyse the long-term impacts of the law on both the financial performance of Islamic banks and the socio-economic conditions in Aceh. This would provide a more comprehensive understanding of the law's effectiveness and areas for improvement. Besides, this study emphasises the importance of balancing religious obligations with economic rights. Future legislative efforts should strive to harmonise these objectives to prevent adverse socio-economic effects.

The limitation of the research is that the authors merely focus on the performance based on the stock price of a particular institution to create the calculation, albeit across this criterion, there are plenty dimensions to be taken as a research focus for a quantitative approach. Future research could explore other dimensions of institutional performance that may also be derived from the data extraction provided by Islamic regional-owned banks, Islamic regional banks or Islamic microfinance firms. Hence, there is compelling opportunity to explore a broader array of indicators beyond stock performance. Investigating how such laws impact other facets of financial operations, customer satisfaction, market expansion and overall economic health, could provide deeper insights. For the qualitative approach, perhaps a focus could be placed on how the policymaker and the regional government develop new strategic measures to facilitate the law's objective while achieving economic growth, regional revenue and prosperity.

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About the authors

Muhammad Syauqi Bin-Armia is an esteemed scholar in Islamic Banking and Finance, with a notable academic background that includes a First Class Honors Bachelor of Sharia from the Islamic University of Medina and a Distinction in MBA from Bangor University, UK. His expertise is further highlighted by his certification as a Shariah Advisor and Auditor from AAOIFI. His skills are wide-ranging and include quantitative analysis in event studies, case studies, data analysis and banking. He is also proficient in accounting and auditing, showcasing advanced proficiency in software such as STATA and SPSS.

Muhammad Siddiq Armia is a Professor of Law with a demonstrated history of working in the research university, having publications indexed by Scopus and Google Scholar. He did Doctor of Philosophy (PhD) in Anglia Ruskin University, Cambridge, United Kingdom; comparative study in Supreme Court of the United Kingdom and Germany Constitutional Court-Bundesverfassungsgericht; research interests on International Law, British Common Law, Islamic Constitutionalism, Comparative Constitutional Law, Constitutional Court and Administrative Law; having more than 10 years of experiences including in academic and international development program in Indonesia, such as United Nations Development Program (UNDP) and US Agency for International Development (USAID); last role was in academia and management roles as Dean and Professor of Law in State Islamic University Ar-Raniry, Banda Aceh, Indonesia.

Muhammad Fazlurrahman Syarif is a PhD researcher in Islamic Finance and Economy at Hamad bin Khalifa University, receiving a full Qatar Foundation scholarship. He has won and received grants from multiple start-up competitions in Qatar and, including those organised by HBKU Innovation Center, the Digital Incubation Center, the Ministry of Communication and Information Technology-Qatar, Qatar University and Qatar Development Bank. His start-up has been incubated by the prestigious Qatar Science and Technology Park (QSTP), Member of Qatar Foundation. Syarif's research interests include fintech, sentiment analysis, social media credit scoring, chatbots, crowdfunding, CBDCs, blockchain, halal economy, sukuk and e-learning. He began his career in Islamic Banking and Finance after completing his MBA in Islamic Banking and Finance at the Bangor University and attending Durham Islamic Finance Summer School at the Durham University in the United Kingdom. Muhammad Fazlurrahman Syarif is the corresponding author and can be contacted at: musy33188@hbku.edu.qa