



**PROSPECTS AND DEVELOPMENT OF SHARIA MUTUAL FUNDS
IN INDONESIA: FINANCIAL SERVICES AUTHORITY
REGULATION NO. 33/POJK.04/2019 PERSPECTIVES**

Siti Maghfiroh ¹, Saiful Ansori ²

¹UIN Prof. K.H. Saifuddin Zuhri Purwokerto, ²IAIN Syekh Nurjati Cirebon

¹siti.maghfiroh01@uinsaizu.ac.id, ²ansorisaeful@gmail.com

Abstract

One institution that plays an important role in capital market activities is a sharia mutual fund company. Mutual funds are believed to have a big role in the national economy because they can mobilize funds. The developments shown to date have fluctuated with a positive trend. The purpose of this research is to look at the prospects and developments of sharia mutual funds in 2022. While the research method is a literature study with a qualitative descriptive approach. Referring to the Capital Market theory and Financial Services Authority Regulation No.33/POJK.04/2019, concerning the Issuance and Requirements of Sharia Mutual Funds as well as references to various sources of research results, including prospects and developments of sharia mutual funds in 2022, among others, first, adding variants sharia mutual fund products. Second, for investors, it can be an alternative for investors to take action as well as analyze investors who have been making direct investments abroad. Third, for Investment Managers and Sharia Mutual Fund Companies. This arrangement can provide a solution for Islamic mutual fund investment managers to fulfill the choice of sharia securities in a portfolio that is currently still limited in Indonesia. Meanwhile, in terms of the percentage of sharia mutual fund products, this variant of sharia mutual funds is varied, namely in the range of 22%, which means it is balanced with other variants. Support in the form of this regulation is expected to be a driving force for the development of sharia mutual funds in 2022.

Keywords: *Sharia Mutual Funds, Investors, Investment Managers, regulation*

INTRODUCTION

One of several institutions that play an important role in capital market activities is sharia mutual funds or sharia mutual fund companies. Mutual funds are believed to have a big role in the national economy because they can mobilize funds (Rivai, 2010). The Islamic financial market is a form of segmentation that is allegedly increasing the fastest in the global financial system. However, among them, only a small proportion of funds are invested in Islamic financial products, this shows that this market has enormous potential (Girard and Hassan, 2006).

Based on data from the Financial Services Authority, as of November 2021, the net asset value (NAV) of mutual funds reached IDR 562,550.75 billion, while the NAV for sharia mutual funds reached IDR 42,668.70 billion or 7.58% of the NAV of conventional mutual funds. This amount is still very small, for that we need support from various parties so that Islamic mutual funds are able to make a big contribution to the national economy.

Mutual funds are designed as a means to raise funds from people who have the capital and desire to invest, but only have limited time and knowledge. Sharia-based mutual funds have their own charm compared to other types of mutual funds, especially for the Indonesian people who are mostly Muslim, they can meet the convenience of investing in accordance with sharia principles. This is what makes Islamic mutual funds different in terms of products, services and business activities from conventional mutual funds.

Previous research related to the development of sharia mutual funds includes Nana Sepdiana (2019). This research was conducted with the aim of measuring the performance of Islamic mutual funds based on the types of Islamic mutual funds which include stocks, fixed income, mixed, and the money market in the 2015-2017 period. By using the Sharpe method, it is concluded that in that time span the type of Islamic mutual funds is dominated by the type of stock. Meanwhile, Muhayati (2020), in his research, shows more about the number of Islamic mutual funds that have developed from 2010-2019. With qualitative descriptive method, obtained a number of data that the number of Islamic mutual funds in that period has increased. At the beginning of 2010 there were 50 sharia mutual funds, then in 2019 there were 268 sharia mutual funds.

Then Andriani (2020), in his research, emphasizes the development of how the principles of sharia mutual fund investment are and how to invest in sharia mutual funds. The results of the research show that the statistical development of Islamic mutual funds tends to increase significantly, as well as the NAV which reaches Rp 67.71 trillion. The investment procedures for sharia mutual funds include two methods, namely the purchase method or

called a subscription and the sale method or redemption. Both methods must be well understood, because they can determine the level of risk and profit obtained by investors and investment managers.

Sjafruddin and Dewi (2021), by conducting an empirical study on the development of sharia mutual funds. Quantitatively, the mutual fund industry in Indonesia continues to increase both in terms of the number of mutual funds, participation units, and net asset value. Sharia mutual funds also experienced an increase in the number of investment products issued based on sharia values by investment managers. However, the total investment or contribution to economic activity is still low.

Based on the explanation above, this research will look at the prospects and developments of Islamic mutual funds in Indonesia in terms of product variants, as well as market players with reference to the Financial Services Authority Regulation No.33/POJK.04/2019 concerning Issuance and Requirements for Sharia Mutual Funds.

METHODS

The research method used is descriptive qualitative, namely describing data taken from various reference sources, both numerical and other supporting data. This research is library research because all data is taken from supporting books, website information, and other information which all become reference material.

The following sources of information in the acquisition of research data

1. Data from the Financial Services Authority, in ojk.go.id.
2. Data from the Islamic Capital Market at <https://idxislamic.idx.co.id/>
3. Institutional data www.bareksa.com.
4. Supporting books.
5. Information from other websites.

RESULT AND DISCUSSIONS

Characteristics of Sharia Mutual Funds

Islamic mutual funds are basically an Islamization of conventional mutual funds (Rivai, 2010). In America, mutual funds are known as mutual funds, in England and Malaysia as unit trusts, then in Japan they are known as investment trusts (Huda and Nasution, 2008). Sharia mutual funds are a forum used to collect funds from the investor community as the owner of the funds (shahibul mal) to be further invested in a securities portfolio by the Investment Manager as a representative of shahibul mal according to the

provisions and principles of Islamic sharia. The securities portfolio can be in the form of stocks, bonds, money market instruments, or a combination of several of them (Sudarsono, 2004).

Meanwhile, according to the DSN-MUI Fatwa No.20/DSN-MUI/IV/2001, concerning Investment Implementation Guidelines for Sharia Mutual Funds, sharia mutual funds (Sharia mutual funds) are mutual funds that operate according to the provisions and principles of Islamic sharia, both in the form of contracts between investors as fund owners (shahibul mall/Rabbul mal) with the Investment Manager as the representative of the shahibul mall, as well as between the Investment Manager as the representative of the shahibul al-mal and the investment users.

Sharia mutual funds are one of the financial institutions that can be used as an alternative investment for people who want returns from sources that are clean and can be accounted for in sharia. The main purpose of Islamic mutual funds is not merely seeking profit, but also having social responsibility towards the environment, commitment to religious values, although without having to ignore the interests of investors (Susanto, 2008).

The basic principles that characterize Islamic mutual funds are as follows:

1. The type of business activity does not conflict with Islamic sharia, such as: gambling, conventional financial institutions (ribawi), businesses that produce, distribute, trade in forbidden food and beverages, and businesses that produce goods or services that damage morals and are harmful.
2. The type of transaction does not contain prohibited items, such as: Najasy, insider trading, and investing in companies whose debt level is more dominant than their capital.
3. The principle of investment rules is only on securities of companies whose business activities and main business results are in accordance with Islamic sharia guidelines.
4. The existence of "screening" and "cleansing" (Soemitra, 2009).

Sharia Mutual Fund Regulation

Historically, the existence of sharia mutual funds is not known in the history of the birth and spread of Islam (Anshori, 2008: 51). However, this does not mean that Islam does not have concepts that can be used as the basis for the formation and operation of Islamic mutual funds. In Islamic economic law there are several muamalah principles which explain that everything is allowed as long as it is not prohibited by the Qur'an and Sunnah.

Sharia mutual funds in addition to the provisions in Law no. 8 of 1995 concerning the Capital Market and Technical Regulations in the form of

Government Regulations and Decrees of the Minister of Finance, regarding the legal provisions (by sharia) regulated in the DSN MUI fatwa no. 20/DSN-MUI/IV/2001 concerning Investment Implementation Guidelines for Sharia Mutual Funds.

Sharia mutual funds in carrying out their operations must have a Sharia Supervisory Board (DPS) so that they do not violate sharia rules as stipulated in the DSN Fatwa (Nawawi, 2012). The position of DPS in investment companies (investment funds) has a very important meaning as a sharia control and prudential mechanism that provides sharia guarantees for investors, so that the main function of DPS is as an advisor to investment managers on matters related to sharia aspects and as a mediator between mutual funds with DSN (Mannan, 2009).

There are several regulations regarding the operation of sharia mutual funds as stated in this fatwa, including:

1. General requirements

In this general provision, the DSN-MUI fatwa No.20/DSN-MUI/IV/2001 put forward several definitions related to the terms that exist in a sharia mutual fund transaction.

2. Sharia Mutual Fund Activity Mechanism

In sharia mutual funds, the operational mechanism consists of two types of legal actions in the form of agreements, namely:

- a. Between the investor and the investment manager, it is carried out with a wakalah system.
- b. Between the investment manager and the investment user, this is carried out using a mudharabah system.

Types of Sharia Mutual Funds That Are Developing in Indonesia

1. Types of Mutual Funds by Operational Nature

Based on the nature of their operations, mutual funds can be divided into open-end and closed-end mutual funds.

- a. Open-ended mutual funds, meaning that mutual funds provide the possibility for investors to buy shares or participation units from mutual funds and can resell them to mutual funds without being limited to how many shares or participation units are issued (Anshori, 2008).
- b. Closed mutual funds are mutual funds that sell their shares to investors through an initial public offering on the stock exchange. So if investors want to sell the mutual fund, they can resell it through the stock exchange to other investors, not to the investment manager or issuer (Anshori, 2008).

2. Types of Mutual Funds by Investment

Mutual funds as investment instruments whose object is the management of securities portfolios by investment managers can generally be classified into several types, including:

a. Money Market Fund

This mutual fund provides investment options for money market investment instruments with maturities of less than one year (Huda and Heykal, 2010). The forms of investment instruments include time deposits, certificates of deposit, Bank Indonesia Certificates (SBI), Money Market Securities, and Bonds. The attractiveness of this investment instrument in the money market is that it is very liquid and has a lower risk level than other investment instruments.

b. Equity Fund

Equity mutual funds are mutual funds whose investment portfolio is in equity instruments with an amount of at least 80% of total investment assets and 20% of managed funds are invested in other instruments (Huda and Heykal, 2010). Investment managers who make purchases on these stock instruments usually always make a selection on "blue chip" stocks (pre-eminent stocks) and on liquid types of stocks. In general, stock securities contribute by providing attractive results, in the form of capital gains and dividends to shareholders.

c. Fixed Income Fund

This mutual fund has a type of investment portfolio in securities in the form of debt securities, such as bonds with a composition of at least 80% of its total assets. Fixed Income Mutual Funds (RDPT) can be in the form of deposits, Islamic bonds, SWBI, and other instruments.

d. Mixed Mutual Fund (Discretionary Fund)

This mutual fund allocates investment funds in the form of a varied portfolio, so that mixed mutual funds are more flexible in their orientation in carrying out investments (Huda and Heykal, 2010).

Then, with the enactment of Law No. 11 tahun 2011 concerning the OJK, since December 31, 2012, the regulation and supervision of financial service activities in the Capital Market sector, including the management of protected mutual funds, guaranteed mutual funds, and index mutual funds, shifted from BAPEPAM LK to OJK with OJK Regulation No. 48/POJK.04/2015 concerning Guidelines for the Management of

protected mutual funds, guaranteed mutual funds, and index mutual funds.

- a. Protected Mutual Funds (Capital Protected Funds) are mutual funds that provide protection/protection for investors' initial investment through a portfolio management mechanism (Huda and Keykal, 2010: 256). Most of the managed funds will be included in debt securities that are included in the Investment Grade category so that the value of the debt securities at maturity can at least cover the total protected value.
- b. Guaranteed Funds are mutual funds that provide certain guarantees to investors as long as they meet certain requirements (Huda and Keykal, 2010). The guarantee is given by appointing a guarantor, it can be an investment manager who manages the mutual fund, or with other institutions, it can be a bank or a securities company.
- c. Index Mutual Funds
The mutual fund portfolio consists of securities that are part of the reference index (Huda and Keykal, 2010). Investment managers are required to invest at least 80% of the Net Asset Value (NAV) in at least 80% of the securities that are part of the index reference, including JII, ISSI, etc.

Differences between Sharia and Conventional Mutual Funds

To distinguish between sharia and conventional mutual funds, a portfolio management process can be carried out, including:

1. The main difference is in the screening process as part of the asset allocation process. Islamic funds are only allowed to make placements in stocks and other halal instruments. This has an impact on the allocation and composition of assets in its portfolio.
2. Islamic funds also carry out a cleansing process which intends to clean up non-halal income.

The following table shows the differences between Islamic mutual funds and conventional mutual funds:

| Different | Types of Mutual Funds | |
|------------------------------|---|----------------------|
| | Sharia | Conventional |
| Purpose of Investment | Investment Objectives Not only looking for high returns, but also SRI (socially responsible investment) | <i>High return</i> |
| Operational | There is a screening process | No screening process |

| | | |
|---------------------|---|--|
| Return | Cleansing/Filtering process from illicit activities | None |
| Supervision | DPS and OJK | OJK only |
| Akad | As long as it does not conflict with sharia | Emphasizing an agreement without any halal and haram rules |
| Transactions | It is not permissible to speculate that it contains Gharar such as najasy (false offer), ikhtikar, maysir, and riba | As long as the transaction is profitable |

Data: Summary, Rivai (2010)

Sharia Investment Selection

In the context of sharia investment, investment must be sharia compliant and the selection process will be guided by the decision of the Sharia Supervisory Board (Jaffer, 2004). But in practice, a manager will determine investments that are sharia compliant by screening and selecting from all investments that meet the fund's investment objectives. After the manager has thoroughly selected, the DPS will review the application of the manager's criteria to ensure compliance and the overall investment outline (Jaffer, 2004).

According to Yusuf Talal Delorenzo, the duties of sharia supervisors are not only limited to screening and selecting investment portfolio equities, but more than that, namely the process of moral and fiscal portfolio purification, stock selection portfolio purification, portfolio monitoring: monitoring management, monitoring fees, monitoring financial documentation, monitoring industry, product development, consumer advocacy, reporting regularly (Jaffer, 2004).

In the investment selection, there are two criteria applied, namely:

1. Qualitative Criteria

This qualitative criterion is more precisely the core business activity screening, with reference to the DSN-MUI Fatwa No.20/DSN-MUI/IV/2001 article 8 concerning the prohibition of investment in:

- a. Gambling and gaming businesses which are classified as gambling or prohibited trade.
- b. Conventional financial institution business (ribawi) including conventional banking and insurance.
- c. Businesses whose activities are producing, distributing and trading haram food and beverages.
- d. Businesses that produce, distribute and/or provide goods or services that damage morals and are harmful

2. Quantitative Criteria, these criteria will consider certain financial ratios as determined by each index.

The selection process for sharia shares is based on two main criteria, namely business criteria and financial criteria. Business criteria are criteria that are compiled based on the type of business of each issuer. The type of business category that is used as an indicator in the business criteria is based on the halalness of the business, both halal because of the substance (product) and process. Meanwhile, from the financial criteria, sharia shares must have a total debt to total asset ratio of not more than 45% and non-halal income to total income of not more than 10% (www.ojk.go.id).

Prospects and Development of Islamic Mutual Funds in Indonesia

The first sharia mutual fund was launched on June 25, 1997, after which this sharia instrument continued to develop in the capital market. This is influenced by a number of factors, including the first development of various types of capital market instruments in accordance with sharia which is strengthened by the DSN-MUI fatwa. Second, the development of sharia-compliant transactions on Islamic capital market instruments. Third, the development of institutions that monitor the types and transactions of the Islamic capital market (Huda and Keykal, 2010).

The following is a graph of the development of Islamic mutual funds in Indonesia (2015)

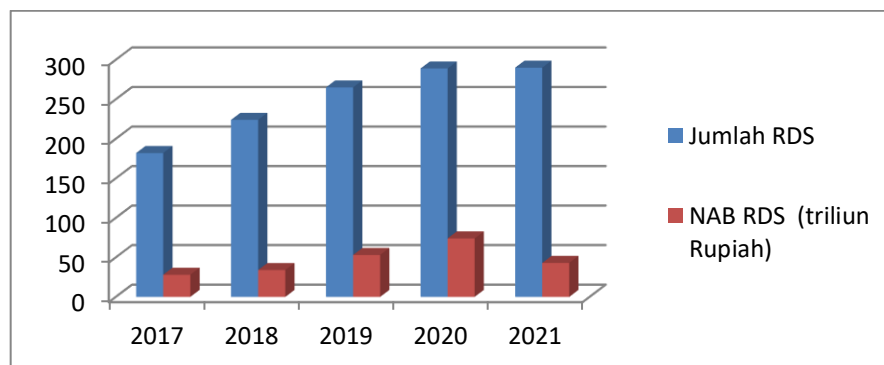


Figure 1. Graph of Sharia Mutual Fund Development as of November 2021

The following table compares Islamic mutual funds with conventional in terms of amount and Net Asset Value (NAV)

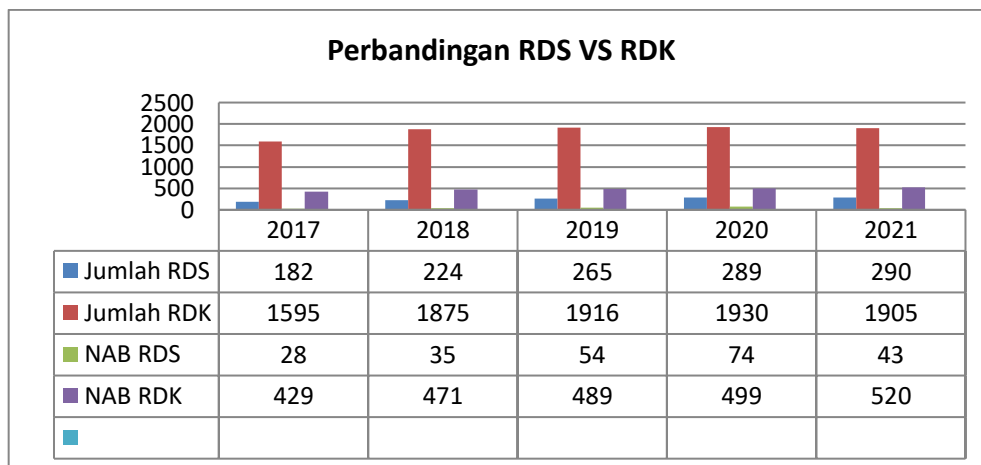


Figure 2 Sharia Capital Market Statistics (OJK) November 2021

From the data above, it shows that as of November 2021 the number of RDS is only 15.22% of the total RDK, while the NAV is 8.3% compared to the NAV of the RDK (www.ojk.go.id).

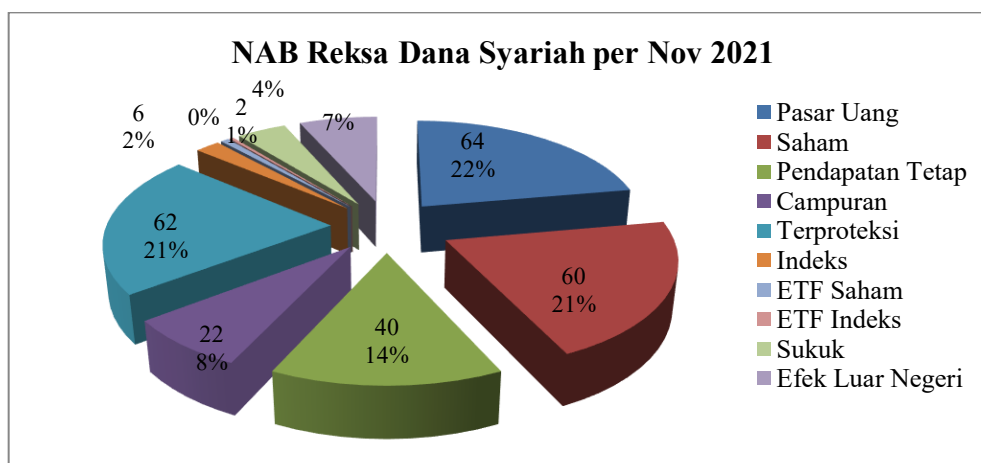


Figure 3 Net value Assets (OJK) November 2021

Based on the diagram above, the types of Islamic mutual funds are quite varied, but among them are more dominated by Islamic mutual funds, namely money market types, which reach 22% of all types of Islamic mutual funds. The issuance of new types of mutual funds is specifically regulated in POJK No.19/POJK.04/2015, concerning the Issuance and Requirements of Sharia Mutual Funds. Then in 2019, the OJK issued a new regulation regarding the Issuance and Requirements of Sharia Mutual Funds with No.33/POJK.04/2019. Based on this new regulation, the types of sharia mutual funds are as stated in article 3, namely:

1. Money Market Sharia Mutual Funds;
2. Fixed Income Sharia Mutual Funds;
3. Share Sharia Mutual Funds;

4. Mixed Sharia Mutual Funds;
5. Protected Sharia Mutual Funds;
6. Index Sharia Mutual Funds;
7. Foreign Sharia Securities-Based Mutual Funds;
8. Sukuk-Based Sharia Mutual Funds;
9. Sharia Mutual Funds in the Form of Collective Investment Contracts whose Participation Units are traded on the Exchange; and
10. Sharia Mutual Funds in the Form of Limited Participation Collective Investment Contracts.
11. Sharia Mutual Fund target time
12. Other Sharia Mutual Funds as long as they have been determined by the OJK.

From the issuance of new types of mutual funds which are specifically regulated in the Financial Services Authority Regulation No.33/POJK. 04/2019, concerning the Issuance and Requirements of Sharia Mutual Funds, a number of prospects in the development of sharia mutual funds include:

1. Sharia mutual fund product variants

The issuance of this type of sharia mutual fund adds a more flexible variant of sharia mutual funds, which means that this new type of sharia mutual fund is a separate freedom for investors. So that it can be used to bring together potential investors, both institutional and retail, with parties who need funding, both on a large economic scale and for small and medium enterprises (SMEs).

The development of Islamic mutual funds that show a positive trend will increase the confidence of potential investors to join and use this financial instrument.

2. Investors

- a. With the improvement in this new regulation, it can provide an alternative for investors to diversify as well as analyze investors who have been making direct investments abroad.
- b. Can bridge foreign investors to be able to take advantage of local investment managers in investing in foreign securities, as well as improve the competitiveness of Indonesia's Islamic capital market.
- c. For investors who are interested in investing in foreign instruments, there is no need to bother anymore because it can be done through mutual fund products that are available domestically.

3. Investment Manager and Sharia Mutual Fund Company

This regulation can provide a solution for sharia mutual fund investment managers to fulfill the choice of sharia securities in portfolios, which are currently still limited in number in Indonesia. OJK has revised

regulations for new types of mutual fund products, namely sharia mutual funds in accordance with OJK regulations.

CONCLUSION

Islamic mutual funds in Indonesia grow and develop in a fluctuating manner, but basically have a number of bright prospects. OJK on behalf of the government has prepared regulations, strategies, and breakthroughs to boost the growth of sharia mutual funds. With the issuance of the new rules contained in the Financial Services Authority Regulation No.33/POJK.04/2019, concerning the Issuance and Requirements of Sharia Mutual Funds, a number of prospects in the development of sharia mutual funds emerged, including firstly, adding variants of sharia mutual fund products. Second, for investors, it can provide an alternative for investors to diversify as well as analyze investors who have been making direct investments abroad. Third, for Investment Managers and Sharia Mutual Fund Companies.

This arrangement can provide a solution for Islamic mutual fund investment managers to fulfill the choice of sharia securities in a portfolio which is currently still limited in number in Indonesia.

Meanwhile, in terms of the percentage of sharia mutual fund products, this variant of sharia mutual funds is varied, namely in the range of 22%, which means it is balanced with other variants. Support in the form of this regulation is expected to be a driving force for the development of sharia mutual funds in 2022.

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