



Integrated Supervision System of Islamic Financial Institutions in Indonesia: An Analysis of Opportunities and Challenges

Lina Af'ida Fataya Helwa

Gadjah Mada University of Yogyakarta, Indonesia,

Article Info	Abstract
<p>Article history: Received June 11, 2024 Revised July 01, 2024 Accepted August 29, 2024</p> <hr/> <p>*Corresponding author email: linaafidafatayahelwa@mail.ugm.ac.id</p>	<p>This article aims to provide an overview of the integrated supervision system in Islamic financial institutions, focusing on Islamic banking. This research is descriptive qualitative research with a literature study approach, analyzed using opportunity and challenge analysis. The data collection techniques are sourced from journal articles, both nationally and internationally reputed, scientific books, the websites of OJK and BI. The results of this study indicate that the opportunity for the formation of an integrated supervision system lies in the presence of KPJKS (Komite Pengembangan Jasa Keuangan Syariah or Committee for the Development of Islamic Financial Services), which is expected to unify the previously separate supervision systems, namely based on sharia compliance under DSN-MUI and prudential and risk oversight under OJK. Other opportunities include cost efficiency of the organizational structure and ease of coordination regarding communication and information. The challenges faced are the quite complicated regulations of Islamic financial institutions and the performance that seems passive and only focuses on sharia compliance supervision.</p>
<p>Page: 170-175</p>	<p>AICIE with CC BY license. Copyright © 2024, the author(s)</p>

INTRODUCTION

As one of the countries with the largest Muslim market in the world, Indonesia continues to develop sharia-based financial institutions in response to the rapid development of Islamic finance on the international stage. Improving the quality of Islamic financial

institutions is inseparable from sharia governance, which consists of four aspects: the Shari'ah Supervisory Board, Internal Shari'ah Compliance, Internal Shari'ah Audit/Review, and External Independent Shari'ah Audit (AAOIFI, 2013). As an effort to maintain sharia compliance, Indonesia has established a sharia financial supervisory institution by implementing a separate supervision system (Kalsum, 2018). The regulation and supervision of sharia principles based on fatwas are governed by the DSN (Dewan Syariah Nasional or National Sharia Council) under the MUI (majelis Ulama Indonesia or Indonesian Ulema Council), which is carried out by the DPS (Dewan Pengawas Syariah or Sharia Supervisory Board) in each branch of the Islamic financial institutions. Meanwhile, the authority over positions and employees, management of reporting systems, proposals for new products, and other administrative activities are regulated by the OJK in coordination with BI.

In practice, the model of the separate supervision system in Indonesia still has many aspects that need optimization. Concrete evidence includes the role of the DPS not functioning as it should, exemplified by its role being merely supplementary, appointments based on charisma and popularity rather than expertise, the DPS's preoccupation with their main jobs, high salaries equivalent to commissioners, performance based only on financial metrics, which encourages sharia violations, especially in converted Islamic banks from conventional banks, and cases of sharia compliance violations often being identified by BI before the DPS, which is supposed to oversee sharia compliance (Astuti, 2015; Prabowo & Jamal, 2016).

The examples mentioned above relate to the lack of effectiveness and efficiency of the separate supervision system in Indonesian Islamic financial institutions. Therefore, the researchers provide an overview of previous studies, presenting empirical evidence and the positive impact of integrated supervision systems implemented in various countries. Research by Čihák & Podpiera (2006) indicates that integrated supervision is associated with consistent banking quality and above-average economic growth in countries that implement it, while for securities and insurance, the correlation with economic levels is weaker. Another study by Podpiera & Čihák (2008) shows that integrated supervisory institutions are characterized by better quality than other supervisory bodies in several countries, as measured by GDP per capita. Melecký & Podpiera reveal that integrated supervision is driven by financial conglomeration, new regulatory challenges, and the effectiveness and efficiency in the flow of information and regulation among supervisors, transitioning from traditional microprudential to macroprudential oversight. Triyanta (2009) states that Malaysia, which implements an integrated supervision system in sharia compliance and regulatory management in Islamic financial institutions, facilitates easier supervision in terms of effectiveness and efficiency.

This research is different from previous studies; it focuses on offering and describing an integrated supervision model in Indonesia, viewed from a historical approach and aspects of Sharia governance based on an analysis of opportunities and challenges. It considers the fact that there are many deficiencies in the separate supervision system practiced in Sharia

financial institutions so far. However, this study is limited to Sharia banking financial institutions in general.

METHOD

This research is a qualitative study with a literature review approach, which involves data exploration based on primary and secondary sources through referencing to generate data interpretation (Darmalaksana, 2020). Qualitative research requires descriptive analysis to provide explanations, systematic and objective descriptions, and criteria about the integrated supervision system and its implementation in Islamic financial institutions in Indonesia. Relevant data sources or references related to the supervision system of Islamic financial institutions include reputable national and international journal articles, scholarly books, OJK and BI websites, which discuss integrated supervision systems in both micro and macro sectors in financial institutions in general, as well as Islamic financial institutions. Furthermore, this literature is used as information material in planning integrated supervision systems for Islamic financial institutions based on opportunity and challenge analyses.

RESULT AND DISCUSSION

1. Opportunities for Integrated Supervision System of Islamic Financial Institutions (IFIs) in Indonesia

Adhering to Sharia principles by Islamic financial institutions (IFIs) is crucial. IFIs operating with deception or obscuring ribawi transactions can be avoided through fraud detection. Fraud itself can lead to the collapse of public trust in IFIs, especially among Muslims, making Sharia governance in the form of supervision and Sharia compliance a primary concern (Budiono, 2017). The DSN-MUI and DPS are tasked by MUI to ensure the achievement of Sharia principles in the economic sector, particularly in IFIs such as Islamic banking. DSN regulations are established by MUI based on SK DSN-MUI No. 1 of 2000 regarding the Basic Guidelines for DSN-MUI Management, while DPS itself is an extension of DSN-MUI regulated by PBI No. 6/24/PBI/2004 (Mardian, 2019).

Equally important in Sharia governance besides Sharia compliance is supervision related to risk in the form of prudential measures. OJK, as an independent non-governmental institution tasked with overseeing the overall financial sector, including IFIs, previously under BI's purview (OJK, 2017b). With this change, the Sharia Banking Committee, formerly under BI and solely focused on Islamic banking, was expanded by OJK into the Sharia Financial Services Development Committee, known as KPJKS. This committee has the authority not only to regulate and supervise IFIs such as banking, capital markets, and takaful, but also other micro-level Sharia financial units (Kalsum, 2018). The emergence of KPJKS presents an opportunity and synergy for the existence of an integrated supervision system in IFIs. The role of KPJKS as a bridge between DSN as the issuer of Sharia fatwas and OJK, which also coordinates with BI as the regulator, in interpreting DSN-MUI fatwas in the establishment of Sharia financial system. It is hoped that with the existence of KPJKS, this can be an indication that if supervision of IFIs is consolidated, it will facilitate

regulation and governance of institutions. Based on Mejía et al.'s (2014) research, with such integration, factors such as organizational structure and supervision efficiency cost should be considered, resulting in more cost-effective alternatives for communication, information, and coordination across institutions.

In Sharia governance, institutional structure is crucial as it can facilitate coordination access. For example, if DPS and DSN are under OJK, it will facilitate the monitoring of DPS performance in each institution. Based on existing facts and references, it is evident that the role of DPS is still suboptimal in supervising Sharia compliance based on DSN fatwas. Thus, if DPS and DSN are under OJK, it will strengthen supervision and regulation of IFIs, avoiding overlapping regulations related to IFIs in Indonesia.

2. Challenges of Integrated Supervision System of IFIs in Indonesia

The regulation of IFIs, especially Islamic banking, in Indonesia is known to be quite complicated (Triyanta, 2009), compared with Malaysia, which is more efficient due to strong government support since its inception. Looking back at the early history of the establishment of Islamic financial institutions initiated by Bank Muamalat, it can be seen that the government's politics at that time did not strongly support government institutions collaborating with Islam. The political influence of the government at that time also affected the formation of Sharia supervisory institutions. Historical factors pose their own challenges that continue to persist within government institutions.

According to Mejía et al. (2014) the competence (funding, skills, and adequate resources) of a Sharia supervisor becomes more important, as highlighted by Latif (2018) regarding the importance of optimizing DPS and improving the quality of human resources on knowledge of Sharia compliance among officials and employees of IFIs, compared to the organizational structure of IFIs. Thus, governance factors such as transparency, accountability, independence, and Sharia compliance are emphasized. Mizushima (2013) states that Sharia governance tends to be passive and solely focused on Sharia compliance, unlike conventional financial institutions that expand the concept of institution governance to include Corporate Social Responsibility (CSR). With this in mind, the focus in Islamic financial institutions needs to be expanded to a more comprehensive stage, not only on textual matters such as fatwas issued by DPS but also on risk management and prudential measures under OJK's jurisdiction.

CONCLUSION

The integrated supervision system in Indonesia has great potential for development, considering various positive aspects. One of these aspects is the KPJKS (Committee for the Development of Sharia Financial Services), which holds promise for unifying previously separate supervision systems for Sharia compliance based on fatwas under DSN-MUI and prudential supervision and risk oversight under OJK. There is also the potential for cost efficiency in organizational structure and ease of coordination in terms of communication and information. However, there are challenges to be faced. Regulations related to Islamic

financial institutions are quite complicated, considering the history of the emergence of Sharia supervision coupled with government politics at the time that were less supportive. Additionally, there is a perception of passive performance, solely focused on Sharia compliance. Therefore, apart from integrating the structure of Sharia financial supervision institutions, it is equally important to enhance their governance performance, such as improving the quality of human resources in Sharia supervision with comprehensive backgrounds in Islamic law and finance.

REFERENCES

- Arifka Sari, A. (2019). Peran Otoritas Jasa Keuangan terhadap Pengawasan Lembaga Keuangan di Indonesia. *Jurnal Gagasan Hukum*, 1(02), 177–188. <https://doi.org/10.31849/jgh.v1i02.7698>
- Astuti, R. Y. (2015). Analisa Kinerja Dewan Pengawas Syariah di Bank Syariah. *Al Tijarah*, 1(2), 194–210.
- Bangsawan, M. I. (2017). Eksistensi Ekonomi Islam (Studi Tentang Perkembangan Perbankan Syariah Di Indonesia). *Law and Justice*, 2(1), 24–34.
- BI. (2011). *Fungsi pengaturan dan pengawasan perbankan berpindah ke OJK*. <https://www.bi.go.id/id/tentang-bi/sejarah-bi/Default.aspx>
- Bimantara, A. R., & Dewi, I. G. A. A. O. (2019). Pengaruh Shariah Governance Dan Islamic Social Reporting. *Jurnal Ilmiah Akuntansi & Bisnis*, 4(1), 96–104.
- Budiono, A. (2017). Penerapan Prinsip Syariah Pada Lembaga Keuangan Syariah. *Law and Justice*, 2(1), 54–65. <https://doi.org/10.23917/laj.v2i1.4337>
- Christiani, T. A. (2014). Bank Indonesia dan Otoritas Jasa Keuangan dalam Perspektif Hukum. In *Yogyakarta, Edisi Revisi*. Cahaya Atma Pustaka.
- Čihák, M., & Podpiera, R. (2006). Is one watchdog better than three? International experience with integrated financial sector supervision. *Finance a Uver - Czech Journal of Economics and Finance*, 56(3–4), 102–126. <https://doi.org/10.5089/9781451863178.001>
- Darmalaksana, W. (2020). Metode Penelitian Kualitatif Studi Pustaka dan Studi Lapangan. *Pre-Print Digital Library UIN Sunan Gunung Djati Bandung*, 1–6.
- Huda, M. (2021). Peran Otoritas Jasa Keuangan dalam Pengawasan Kesehatan Perbankan di Indonesia. *Salimiya: Jurnal Studi Ilmu Keagamaan Islam*, 2(September). <http://ejournal.iaifa.ac.id/index.php/salimiya/article/view/385%0Ahttp://ejournal.iaifa.ac.id/index.php/salimiya/article/download/385/344>
- Kalsum, U. (2018). Otoritas Pengawasan Perbankan Syariah Di Indonesia. *Li Falah: Jurnal Studi Ekonomi Dan Bisnis Islam*, 3(2), 50. <https://doi.org/10.31332/lifalah.v3i2.1196>
- Kohar, A. (2017). Abd Kohar dalah dosen Fakultas Ushuluddin IAIN Raden Intan Lampung. *TAPIs Vol.*, 14(01), 45–52.
- Latif, A. (2018). Tehnik Pengawasan Kualitas Kepatuhan Syariah (Sharia Complainece). *Jurnal Ekonomi Islam*, 10(1), 89–108.
- Mardian, S. (2019). Tingkat Kepatuhan Syariah di Lembaga Keuangan Syariah. *Jurnal Akuntansi Dan Keuangan Islam*, 3(1), 57–68. <https://doi.org/10.35836/jakis.v3i1.41>

- Marimin, A., & Romdhoni, A. H. (2017). Perkembangan Bank Syariah Di Indonesia. *Jurnal Ilmiah Ekonomi Islam*, 1(02), 75–87. <https://doi.org/10.29040/jiei.v1i02.30>
- Masseo, R. A. (2018). Dewan Pengawas Syariah dan Profesionalisme Sumber Daya Manusia. *Jurnal Syari'ah Dan Hukum*, 16(2), 147–170.
- Mejía, A. L., Aljabrin, S., Awad, R., Nora, M., & Song, I. (2014). Regulation and Supervision of Islamic Banks. In *IMF Working Paper Monetary*. <https://doi.org/10.1057/jbr.2012.3>
- Melecky, M., & Podpiera, A. M. (2013). Institutional structures of financial sector supervision, their drivers and historical benchmarks. *Journal of Financial Stability*, 9(3), 428–444. <https://doi.org/10.1016/j.jfs.2013.03.003>
- Mizushima, T. (2013). Corporate Governance and Shariah Governance at Islamic Financial Institutions: Assessing from Current Practice in Malaysia. *Reitaku Journal of Interdisciplinary Studies*, 22(1), 59–84.
- Munthe, A. K., Pramadhani, I. S., & Satrya, R. I. (2019). Peran Dewan Pengawas Syariah Dalam Pemenuhan Syariah Compliance Oleh Lembaga Keuangan Syariah. *Jils*, 2(3), 1–27.
- Nofianti, L., Mu'at, S., Desrirmiftah, Rahmi, F., & Irfan, A. (2013). Principles Of Good Corporate Governance Shari'a Model. *World Academy of Science Engineering and Technology*, 74, 654–661.
- OJK. (2017b). *Keuangan Syariah*. Otoritas Jasa Keuangan. <https://www.ojk.go.id/id/kanal/syariah/tentang-syariah/Pages/Keuangan-Syariah.aspx>
- Podpiera, R., & Čihák, M. (2008). *North American Journal of Economics and Finance Integrated financial supervision: Which model? ak. 19*, 135–152. <https://doi.org/10.1016/j.najef.2008.03.003>
- Poundrianagari, A. K. (2022). Perbandingan Tanggung Jawab Dewan Pengawas Syariah Di Bank Syariah Indonesia Dengan Bank Syariah Di Malaysia. *Dharmasiswa*, 1(July), 1679–1692.
- Prabowo, B. A., & Jamal, J. Bin. (2016). Peranan Dewan Pengawas Syariah terhadap Praktik Kepatuhan Syariah dalam Perbankan Syariah di Indonesia. *Jurnal Hukum IUS QUIA IUSTUM*, 24(1), 113–129.
- Radian System Konsultan. (2012). *Sejarah Pembentukan Otoritas Jasa Keuangan (OJK)*. <http://radiansystem.co.id/2012/06/15/sejarah-otoritas-jasa-keuangan-ojk/>
- Rama, A. (2015). Analisis Kerangka Regulasi Model Shariah Governance Lembaga Keuangan Syariah Di Indonesia. *Journal of Islamic Economics Lariba*, 1(1), 1–15. <https://doi.org/10.20885/jielariba.vol1.iss1.art1>
- Syahrial, M. (2022). Peran Dewan Pengawas Syariah (DPS) terhadap Kepatuhan Pemenuhan Syariah pada Perbankan Syariah. *Jurnal An-Nahl*, 9(1), 45–52.
- Triyanta, A. (2009). Implementasi Kepatuhan Syariah dalam Perbankan Islam (Syariah) (Studi Perbandingan antara Malaysia dan Indonesia). *Jurnal Hukum - UII*, 16, 209–228.
- Wardayati, S. M. (2011). Implikasi Shariah Governance Terhadap Reputasi Dan Kepercayaan Bank Syariah. *Walisongo: Jurnal Penelitian Sosial Keagamaan*, 19(1), 1. <https://doi.org/10.21580/ws.2011.19.1.210>