

The Role of the Sharia Supervisory Board in Ensuring Contract Compliance in Sharia Financial Institutions' Financing Practices

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Abstract: Murabahah financing, in concept and principle, is intended for a sale and purchase agreement with an agreed-upon cost price and desired profit margin. However, variations exist in practice, where clients use this financing to settle their debts rather than to acquire the objects specified in the contract. Therefore, this research aims to analyze the role of the Sharia Supervisory Board (DPS) in Sharia Financial Institutions concerning Murabahah financing. This study is a field research with an empirical juridical approach. Data were gathered through interviews, observations, and document analysis, and the collected data were analyzed using a qualitative descriptive method. The results indicate that the supervision by the DPS is not optimal as it is limited to central offices and relies on information provided by management, thus not detecting violations in the field. The suggestion from this research is that the supervision would be more comprehensive if the DPS also verifies with clients as a comparative data source to ensure the conformity of products with Sharia principles.

Keywords: *murabahah financing; Sharia Supervisory Board; Sharia financial institutions; Sharia compliance*

Abstract: Pembiayaan Murabahah secara konsep dan aturan adalah untuk melakukan jual beli yang telah disepakati harga pokok dan jumlah keuntungan yang diinginkan. Namun terdapat perbedaan pada tingkat praktik, dimana nasabah menggunakan pembiayaan tersebut untuk membayar hutangnya bukan untuk membeli objek yang dituangkan dalam akad. Oleh karena itu penelitian ini bertujuan untuk menganalisa peran Dewan Pengawas Syariah (DPS) di Lembaga Keuangan Syariah terkait Pembiayaan Murabahah. Penelitian ini merupakan penelitian lapangan dengan pendekatan yuridis empiris. Data diperoleh dengan melakukan wawancara, observasi dan studi dokumen, data yang terkumpul kemudian dianalisa menggunakan metode deskriptif kualitatif. Hasil penelitian menunjukkan bahwa pengawasan DPS belum maksimal karena hanya melakukan pengawasan di kantor pusat dan berdasarkan keterangan dari manajemen sehingga tidak mengetahui pelanggaran di Lapangan. Saran dari penelitian ini, akan lebih komprehensif pengawasan tersebut jika DPS juga mengkonfirmasi kepada Nasabah sebagai data pembandingan sehingga kesesuaian produk dengan prinsip syariah dapat terjamin.

Keywords: *pembiayaan murabahah; Dewan Pengawas Syariah; Lembaga keuangan syariah; kepatuhan syariah*

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Introduction

The legal issue in this research pertains to deviations in the deliberate misuse of Murabahah Financing Funds by clients. Clients do not use the funds in accordance with the type and purpose of the financing requested. Therefore, it is necessary to examine the extent of supervision carried out by the Sharia Supervisory Board (DPS).

Supervision in the implementation of Sharia financial institution operations is of utmost importance. Consequently, every Sharia financial institution (SFI) must have a DPS, which serves as an extension of the National Sharia Board (DSN) to ensure that all operational activities of the SFI comply with Sharia principles.¹

The composition of the Sharia Supervisory Board (DPS) should be structured based on a diversity of expertise² encompassing not only an understanding of Sharia knowledge but also financial intelligence, in order to effectively address sustainability challenges and promote long-term value creation.³

Islamic Sharia values must be ensured to be implemented in every product of Sharia financial institutions (SFI) to mitigate the risks that may lead to the withdrawal of Sharia accreditation for the SFI. Therefore, SFIs should enhance their corporate governance by improving the effectiveness of the audit committee and the Sharia committee to limit risk-taking.⁴

Recognizing the importance of the role of the Sharia Supervisory Board (DPS), in the

year 2000, Decision No. 03 was issued by the National Sharia Board (DSN), which elucidates the appointment of DPS members, outlining their responsibilities, authorities, and functions.

One of the primary tasks of the DPS is to oversee management concerning the implementation of systems and products to ensure compliance with Sharia principles. The DPS not only monitors Sharia practices within Sharia financial institutions (SFIs) but also advises the board of directors and management on how SFIs can contribute to economic development and promote the core values of SFIs..⁵

The Sharia principles referred to are the Islamic legal principles in banking activities based on fatwas issued by the authorized body in Sharia law, in this case, the National Sharia Board of the Indonesian Ulema Council (DSN MUI).

However, even though agreements within Sharia financial institutions (SFIs) are based on Islamic contracts and supervised by the Sharia Supervisory Board (DPS), it does not mean that SFIs do not deviate from the established fatwas.⁶ One issue raised pertains to the inclusion of a wakalah agreement within the Murabahah contract, which is seen as diminishing the substance and Sharia compliance of Murabahah. SFIs (as sellers) empower clients (as buyers) to purchase an item on behalf of the buyer, thus assuming that the SFIs act only as financiers rather than sellers. This conflicts with the fatwa DSN No. 04/DSN-MUI/IV/2000

¹ Aulia Putri Oktaviani Justri and others, 'Bagaimana Dewan Pengawas Syariah Melakukan Pengawasan Operasional Bank?', *Jurnal BanqueSya'ri*, 6.1 (2020), 31–56
<<https://doi.org/https://doi.org/10.32678/bs.v6i1.2429>>.

² Rita Wijayanti and Doddy Setiawan, 'The Role of the Board of Directors and the Sharia Supervisory Board on Sustainability Reports', *Journal of Open Innovation: Technology, Market, and Complexity*, 9.3 (2023), 100083
<<https://doi.org/10.1016/j.joitmc.2023.100083>>.

³ Jaffar Abbas and others, 'The Impact of Knowledge Sharing and Innovation on Sustainable Performance in Islamic Banks: A Mediation Analysis through a SEM Approach', *Sustainability (Switzerland)*, 11.15 (2019)
<<https://doi.org/10.3390/su11154049>>.

⁴ Quang Khai Nguyen, 'Oversight of Bank Risk-Taking by Audit Committees and Sharia Committees: Conventional vs Islamic Banks', *Heliyon*, 7.8 (2021), e07798
<<https://doi.org/10.1016/j.heliyon.2021.e07798>>.

⁵ Céline Meslier, Tastaftiyan Risfandy, and Amine Tarazi, 'Islamic Banks' Equity Financing, Shariah Supervisory Board, and Banking Environments', *Pacific-Basin Finance Journal*, 62.October 2019 (2020), 101354
<<https://doi.org/10.1016/j.pacfin.2020.101354>>.

⁶ Endang Sriani, Farid Hasan, and Sukron Ma'mun, 'Violation of Human Right for Collateral Fraud in Sharia Financial Institution Based on Fiduciary Guaranty Law and Rahn Law', *JURIS (Jurnal Ilmiah Syariah)*, 22.1 (2023), 133
<<https://doi.org/10.31958/juris.v22i1.9157>>.

regarding Murabahah.⁷

In its implementation, in the Murabahah contract, the determination of the financing margin still relies on the annual inflation rate. The higher the Bank Indonesia (BI) rate, the higher the margin charged by the bank to its clients.⁸

However, it's not just these issues that require attention. One of the problems occurring in one of the Sharia Microfinance Institutions (LKMS), namely Baitul Mal wa Tamwil, commonly referred to as BMT, that needs resolution is related to the use of financing funds.

The dominant position held by clients in controlling financing funds for purchasing goods results in the purchase of items that do not align with the agreement made during the contract, and in reality, these funds are used to pay off debts.⁹

Even though it doesn't financially harm the Sharia financial institution (SFI), this can diminish the credibility and trust of the community in the SFI. If such a situation occurs, clients can withdraw their funds from the SFI at any time.¹⁰ Therefore, it is important to examine how and to what extent the role of the Sharia Supervisory Board (DPS) is in carrying out its duties and functions towards Sharia financial institutions (SFIs).

Literature Review

Review of Murabahah Contract in Islam

This research will focus on Murabahah financing in BMT ABC because Murabahah

financing is considered the most popular form of financing in Sharia financial institutions due to its profitability.¹¹

According to the terminology of fuqaha' (Islamic jurists), murābahah means "selling goods at the cost price (purchase price) with a known profit margin."¹² In simple terms, Murabahah can be described as a sale with an agreement between both parties on the cost price and the desired profit for the seller.¹³

In the context of financing in Sharia financial institutions, the institution acts as the seller, and the client acts as the buyer. The selling price is the bank's purchase price plus a specified profit margin.¹⁴ From the various definitions above, we can conclude that Murabahah is exemplified as follows: "My cost to purchase this item is Rp10,000, and I am selling this item to you for an additional Rp1,000 as my profit." For a clearer understanding, please refer to the following diagram:

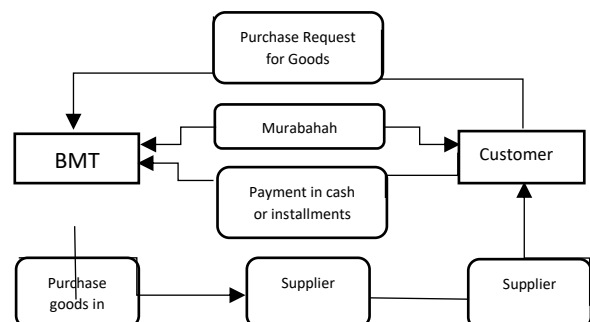


Figure 1. Diagram of Murabahah Financing Mechanism in Sharia Financial Institutions

⁷ Ani Yunita, 'Problematika Penyertaan Akad Wakalah Dalam Pembiayaan Murabahah Pada Bank Syariah', *Varia Justicia*, 14.1 (2018), 21–29 <<https://doi.org/10.31603/variajusticia.v14i1.2024>>.

⁸ Mohd Winario and others, 'ANALISIS PENERAPAN PEMBIAYAAN AKAD MURABAHAH BANK RAKYAT INDONESIA SYARIAH (BRI SYARIAH) PEKANBARU', *Indonesian Interdisciplinary Journal of Sharia Economics (IIJSE)*, 3.1 (2020), 16–38 <<https://doi.org/10.31538/iijs.v3i1.723>>.

⁹ Swrn, 'Personal Interview' (Salatiga, 2022).

¹⁰ Majdi A. Quttainah, Liang Song, and Qiang Wu, 'Do Islamic Banks Employ Less Earnings Management?', *Journal of International Financial Management & Accounting*, 24.3 (2013), 203–33 <<https://doi.org/10.1111/jifm.12011>>.

¹¹ Fich Melina, 'PEMBIAYAAN MURABAHAH DI BAITUL

MAAL WAT TAMWIL (BMT)', *Jurnal Tabarru': Islamic Banking and Finance*, 3.2 (2020) <[https://doi.org/10.25299/jtb.2020.vol3\(2\).5878](https://doi.org/10.25299/jtb.2020.vol3(2).5878)>.

¹² Muhammad ṣalah Muhammad Aṣ-ṣāwī, *Musykilah Al-Istisymār Fī Al-Bunūk Allislāmīyah Wa Kaifa 'Alijuhā Al-Islām* (Kairo: Dār al-Mujtma', 1990).

¹³ Wahid Wachyu Adi Winarto and Fatimatul Falah, 'Analisis Sistem Pengelolaan Keuangan Produk Pembiayaan Syariah Dengan Akad Murabahah', *JPS (Jurnal Perbankan Syariah)*, 1.2 (2020), 150–61 <<https://doi.org/10.46367/jps.v1i2.234>>.

¹⁴ Fich Melina and Marina Zulfa, 'Implementasi Pembiayaan Murabahah Pada Baitul Mal Wat Tamwil (BMT) Kota Pekanbaru', *Journal of Economic, Bussines and Accounting (COSTING)*, 3.2 (2020) <<https://doi.org/10.31539/costing.v3i2.1032>>.

Figure 1 illustrates the Murabahah financing mechanism in Sharia financial institutions, where the institution acts as the seller and the client as the buyer. The selling price includes the institution's purchase cost plus a specified profit margin. The DSN MUI (Indonesian Council of Ulama's National Sharia Council) provides guidelines for this contract as outlined in Fatwa DSN MUI No. 04/SDSN-MUI/IV/2000 on Murabahah:

- a. The bank and the customer must engage in a riba-free Murabahah contract.
- b. The items bought and sold must not be prohibited by Islamic law.
- c. The bank finances a portion or the entire agreed-upon purchase price of the goods, depending on the qualification.
- d. The bank purchases the necessary items on behalf of the customer, and the transaction must be valid and free of riba.
- e. The bank must disclose all relevant information regarding the purchase, such as when the bank buys the item using debt and then sells it to the customer at a price that includes a profit. In this case, the bank must honestly inform the customer of the cost price and any associated fees.
- f. The customer pays the price of the goods within the agreed-upon time frame by both parties.
- g. To prevent misuse or damage of the contract, the bank can establish special agreements with the customer.
- h. If the bank intends to delegate the purchase of goods from a third party to the customer, the Murabahah sales contract must be executed after the items have essentially become the property of the bank.

The Murabahah contract carries a lower financing risk compared to profit-sharing-

based contracts because it features a fixed and unchanging margin throughout the agreement.¹⁵ Additionally, Murabahah is a consumptive contract, which is one of its advantages preferred by customers.¹⁶ It's not surprising that this contract has become the most dominant one in Islamic financial institutions.¹⁷

Based on research into the global financial crisis at the end of the last quarter of 2007, Murabahah can lead to a quicker balance compared to interest rates. Therefore, Islamic financial institutions should be considered as an alternative to conventional finance.¹⁸

The Role of the National Sharia Council (DSN) in Islamic Finance

In February 1999, the Indonesian Ulema Council established the National Sharia Council (DSN), consisting of Islamic legal experts and economic practitioners, particularly in the financial sector, both in banks and non-bank institutions, to carry out the duties of the Indonesian Ulema Council (MUI) in advancing the economy of the Muslim community.

The primary function of DSN is to oversee the products of Islamic financial institutions to ensure they adhere to the principles of Islamic Sharia. To achieve this, DSN develops Sharia guidelines for financial products, drawing from Islamic legal sources. Another function of DSN is to conduct research and issue fatwas regarding the products developed by Islamic financial institutions.

These functions collectively play a crucial role in maintaining the Sharia compliance of financial products and services within the Islamic finance sector, ultimately contributing to the advancement of the

¹⁵ Azhar Alam and others, 'Persepsi Perbandingan Keunggulan Pembiayaan Mudharabah Dan Murabahah Oleh Nasabah Lembaga Keuangan Mikro Islam BMT', *Al Iqtishod: Jurnal Pemikiran Dan Penelitian Ekonomi Islam*, 11.1 (2023), 1–20 <<https://doi.org/10.37812/alqistishod.v11i1.538>>.

¹⁶ Youdhi Prayoga, 'Murabahah Produk Unggulan Bank Syariah (Konsep, Prosedur Penetapan Margin Dan Penerapan Pada Perbankan Syariah', *Al-Risalah: Forum Kajian Hukum Dan Sosial Kemasyarakatan*, 14.01

(2018), 114–31 <<https://doi.org/10.30631/al-risalah.v14i01.402>>.

¹⁷ Winarto and Falah.

¹⁸ Mahmoud Khalid Almsafir and Ayman Abdalmajeed Alsmadi, 'Murabahah Versus Interest Rate, the Equilibrium Relationship with Macroeconomic Variables in Jordanian Economy: An ARDL Approach', *Procedia - Social and Behavioral Sciences*, 129 (2014), 349–57 <<https://doi.org/10.1016/j.sbspro.2014.03.687>>.

Muslim community's economic interests.¹⁹

To implement the fatwas formulated by the National Sharia Council (DSN), DSN establishes a Sharia Supervisory Board (DPS) responsible for overseeing the operational activities of Islamic financial institutions (LKS). Operationally, the DPS is not directly involved in the management under the Directorate, as the DPS's position within the organization is at the same level as the Board of Commissioners.²⁰ Therefore, in addition to oversight, the DPS has the authority to provide advice and input to the management of the Islamic financial institution.²¹

In order to purify the services of Islamic financial institutions to ensure strict compliance with Islamic Sharia principles, institutions operating based on Islamic principles are required to appoint a Sharia Supervisory Board (DPS).²² This board is responsible for ensuring the adherence to Islamic Sharia principles²³ within the institution.²⁴

According to the National Sharia Council's Decision Letter No. 03 of 2000, the Sharia Supervisory Board (DPS) is an integral part of the respective Islamic financial institution, and its placement is subject to the approval of the DSN MUI's decision. The appointment and removal of the DPS are carried out by the Islamic financial institution through a General Meeting of Shareholders (RUPS) after receiving a recommendation from the DSN MUI.²⁵ The organizational structure of the Islamic financial institution can generally be observed in the diagram below:

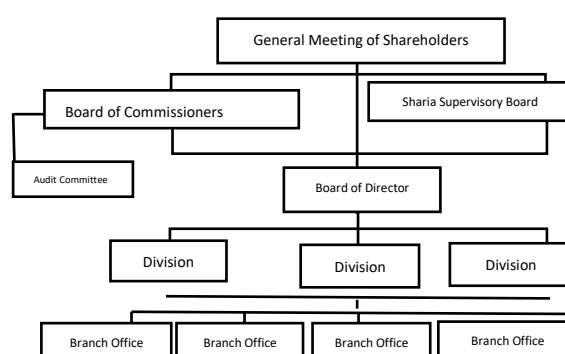


Figure 2. The organizational structure of the Islamic financial institution

Figure 2 shows the organizational structure of an Islamic financial institution, including the Sharia Supervisory Board (DPS), whose appointment is approved by DSN MUI. According to the decision of the leadership of MUI regarding the structure of DSN-MUI, number Kep-98/MUI/III/2001, the Sharia Supervisory Board (DPS) carries out the following functions:

- Acts as an advisor and provides guidance to the directors and the leadership of the Sharia branch office regarding matters related to Sharia aspects.
- Acts as a mediator between the bank and DSN in communicating proposals and recommendations for the development of banking products and services that require examination and fatwa from DSN.
- Acts as a representative of DSN placed in Islamic banks.

Based on the Regulation of the Minister of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia Number 16/per/M-KUKM/IX/2015, Article 14, paragraph 5, the primary tasks of

¹⁹ Winarto and Falah.

²⁰ Hasan Sultoni, 'Peran Dewan Pengawas Syariah Pada Lembaga Keuangan Syariah Di Indonesia', *Eksyar: Jurnal Ekonomi Syaria'ah dan Bisnis Islam*, 6.2 (2019), 42–53.

²¹ Samy Nathan Garas and Chris Pierce, 'Shari'a Supervision of Islamic Financial Institutions', *Journal of Financial Regulation and Compliance*, 18.4 (2010), 386–407 <<https://doi.org/10.1108/13581981011093695>>.

²² OJK, POJK Nomor 12/ POJK.05/2014 Tentang Perizinan Usaha Dan Kelembagaan Lembaga Keuangan Mikro (Indonesia, 2014).

²³ Suryani Suryani, 'INDUSTRI PERBANKAN SYARIAH DALAM CERMINAN ASPEK SHARIA GOVERNANCE', *Economica: Jurnal Ekonomi Islam*, 5.1 (2014), 93–134 <<https://doi.org/10.21580/economica.2014.5.1.766>>.

²⁴ Republik Indonesia, *Undang-Undang No. 21 Tahun 2008 Tentang Perbankan Syariah* (Indonesia, 2008).

²⁵ Bambang Iswanto, 'Peran Bank Indonesia, Dewan Syariah Nasional, Badan Wakaf Indonesia Dan Baznas Dalam Pengembangan Produk Hukum Ekonomi Islam Di Indonesia', *IQTISHADIA Jurnal Kajian Ekonomi Dan Bisnis Islam*, 9.2 (2016), 421 <<https://doi.org/10.21043/iqtishadia.v9i2.1738>>.

DPS in Islamic financial institutions are as follows:

- (1) Providing advice and guidance to supervisors and executives, then monitoring the activities of Islamic financial institutions (LKS) to ensure compliance with Sharia principles.
- (2) Ensuring and assessing the compliance with Sharia principles for operational guidelines and products issued by LKS.
- (3) Monitoring the development of new products.
- (4) Requesting a fatwa from DSN-MUI for new products that do not yet have one.
- (5) Conducting regular reviews of Sharia savings and financing products.²⁶

Method

The method used in this research is qualitative with fieldwork research using an Empirical Juridical approach. Data were obtained through direct observation to witness transactions and business activities, and interviews were conducted with several key informants, including Mr. Swrn, Mr. MW, Ms. Spr, Ms. Jmr as customers of the Islamic financial institution, Ms. El as the Operational Manager of the institution, and Ms. SI as a Marketing representative. Documents (contracts) from the Islamic financial institution are confidential and not accessible to the author. However, for data validation, the author used the technique of source triangulation.

The analysis technique used in this research follows the Miles and Huberman flow method. Data are first reduced to eliminate irrelevant information obtained from the field but unrelated to the research topic. Then, data are presented in a way that aligns with the research theme, and conclusions are drawn by linking the data with relevant theories.

Results and Discussion

Implementation of Murabahah Financing at BMT ABC

The focus of this research is one of the branches of an Islamic financial institution with its headquarters in Semarang. The author is interested in studying the Salatiga branch (rather than the headquarters) to understand the extent of the Sharia Supervisory Board's (DPS) role in overseeing the application of Sharia principles down to the lowest level of the institution.

BMT ABC is an Islamic financial institution that operates as a Cooperative Legal Entity, commonly known as KSPPS (Islamic Savings and Loan Cooperative). With a business permit from the Ministry of Cooperatives, BMT ABC engages in the business of collecting and disbursing funds to the public based on Sharia principles.²⁷

Although it is legally a cooperative, BMT ABC also operates in the financial services sector by accepting deposits and providing financing to non-cooperative members. As a result, BMT ABC follows an Open Loop Cooperative system, with overall supervision falling under the Financial Services Authority (OJK) in general.

One of the products highly favored by BMT ABC's customers is Murabahah financing. According to Ms. SI, who serves as a Marketing representative, customers who visit typically have consumptive needs, and Murabahah, known for its broad and flexible nature, is considered the most suitable for meeting these customer needs.²⁸

Although the purpose of the Murabahah contract is for financing a purchase, where the Islamic financial institution (BMT) should ideally purchase the goods as per the customer's needs in the contract,²⁹ in practice, the disbursed funds are directly transferred to the customer's account,³⁰ granting full control of the funds to the customer.³¹

²⁶ Kementerian Koperasi dan UKM, *Peraturan Menteri Koperasi Dan Usaha Kecil Dan Menengah Republik Indonesia Nomor 16/per/M-KUKM/IX/2015 Tentang Pelaksanaan Kegiatan Usaha Simpan Pinjam Dan Pembiayaan Syariah Oleh Koperasi* (Indonesia, 2015).

²⁷ SI, 'Personal Interview' (Salatiga: BMT ABC, 2022).

²⁸ SI.

²⁹ DSN-MUI, *Fatwa DSN MUI No:04/DSN-MUI/2000 Tentang Murabahah* (Jakarta, 2000).

³⁰ El, 'Personal Interview' (Salatiga: BMT ABC, 2022).

³¹ SI.

Customers who receive disbursements of Murabahah financing do not use the funds in accordance with the terms of the contract.³² They claim that they are unaware of the nature of Murabahah financing and perceive it as a loan from the Islamic financial institution.³³ As a result, they are obligated to make monthly payments, including the institution's profit, until the agreed-upon term.³⁴ This practice, when observed in Murabahah transactions within the institution, poses a challenge in distinguishing it from conventional financial institution (CFI) loans, where CFIs provide funds through borrowing agreements that require borrowers to repay their debts after a specified period, along with the payment of interest.³⁵

In addition to the lack of customer awareness, the misalignment in fund utilization occurs due to the absence of monitoring or supervision by the Islamic financial institution (LKS) to ensure that customers use the funds for purchasing in line with the intended purpose of the Murabahah contract.³⁶

Indeed, while the Sharia Supervisory Board (DPS) does not have direct contact with customers, it has the authority to provide Sharia guidelines to the Islamic financial institution (LKS) regarding fund collection, fund disbursement, and other LKS activities. Furthermore, the DPS also has the responsibility to initiate improvements if the products being offered are deemed to be not in accordance with Sharia principles.³⁷

DPS Supervision Model at BMT ABC

The Sharia Supervisory Board (DPS) at BMT ABC has been in place since the

inception of the institution. According to the Operational Manager of BMT, the presence of the DPS is crucial because BMT is an Islamic financial institution that is not yet well understood by the public when it comes to its management based on Sharia principles.³⁸ This aligns with the moral responsibility that the DPS holds toward all stakeholders regarding the institution's compliance with Sharia principles.³⁹

Based on an interview with Ms. El, who serves as the Branch Manager, and an examination of BMT's organizational structure, it is known that the DPS at BMT ABC consists of only 2 members.⁴⁰ However, referring to the Regulation of DSN-MUI No. PER-01/DSN-MUI/X/2017 regarding the Sharia Supervisory Board (DPS) in Islamic Financial Institutions (LKS), Sharia Business Institutions (LBS), and Sharia Economic Institutions (LPS), each LKS is required to have at least 3 members in the DPS, with one designated as the Chairman. Similarly, according to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards, Islamic financial institutions should have at least 3 DPS members.⁴¹ The assumption is that if the two DPS members have differing opinions on a matter, the third DPS member can act as a mediator and decision-maker. Nevertheless, there is a difference in the implementation of the number of DPS members in Islamic financial institutions. Having fewer DPS members may simplify collective decision-making, making it easier and more

³² MW, 'Personal Interview' (Salatiga: Nasabah BMT ABC, 2022).

³³ Spr, 'Personal Interview' (Salatiga: Nasabah BMT ABC, 2022).

³⁴ Jmr, 'Personal Interview' (Salatiga: Nasabah BMT ABC, 2022).

³⁵ Republik Indonesia, *Undang-Undang Republik Indonesia No. 10 Tahun 1998 Tentang Perubahan Atas Undang-Undang No. 7 Tahun 1992 Tentang Perbankan* (Indonesia, 1998).

³⁶ Swrn.

³⁷ Karnaen Perwataatmadja and Muhammad Syafi'i Antonio, *Apa Dan Bagaimana Bank Islam* (Yogyakarta:

Dana Bhakti Wakaf, 1992).

³⁸ El.

³⁹ Cahaya Permata, 'Tanggungjawab Dewan Pengawas Syariah Terkait Pelanggaran Hukum Pada Asuransi Syariah (Analisis Yuridis Terhadap Undang-Undang Nomor 40 Tahun 2014 Tentang Perasuransian)', *TAQNIN: Jurnal Syariah Dan Hukum*, 1.1 (2019), 23–44 <<https://doi.org/10.30821/taqnin.v1i1.4878>>.

⁴⁰ El.

⁴¹ Karim Ginena, 'Shari'ah Risk and Corporate Governance of Islamic Banks', *Corporate Governance*, 14.1 (2014), 86–103 <<https://doi.org/10.1108/CG-03-2013-0038>>.

effective.⁴² Conversely, having more DPS members may maximize the enhancement of the overall performance of the Islamic financial institution..⁴³

Both DPS members at BMT ABC have predominantly religious backgrounds. However, considering the tasks and functions of DPS, they should not only focus on the Sharia aspects but also possess expertise in economic aspects, Islamic financial institutions, audit, accounting, economics, and business regulations.

The functions of DPS at BMT ABC include regulating the loan contracts within the institution, overseeing the management of BMT in accordance with Islamic Sharia, developing a framework for the supervision and management of BMT in line with Islamic principles, and assisting in promoting efforts for the institution's development and compliance with Islamic Sharia.⁴⁴

The DPS conducts supervision by visiting the central office of BMT located in Semarang once every three months on a rotational basis with the other DPS member to monitor the operational activities of BMT. This monitoring includes gathering information from the management during the board meetings attended by the CEO, managers from all branches and sub-branches. In addition to seeking information, the DPS also provides guidance on matters related to Sharia compliance to the management.⁴⁵

The DPS also examines the products offered by BMT to determine their compliance with Sharia principles. If a product complies with Sharia principles, it will receive certification from the DPS. If a product is found not to be compliant, it will be deemed invalid, and BMT will receive a reprimand from the DPS. Furthermore, the DPS conducts audits every six months. There are times when the DPS provides prior notice

of the audit, but occasionally, they may conduct surprise audits. However, it is important to note that the DPS has not brought or met with customers during these audits.⁴⁶

Up to this point, DPS supervision has not extended to the branches or sub-branches of BMT. Therefore, the oversight of BMT financing, including Murabahah, is aided by the internal audit department within BMT ABC. The implementation of Murabahah financing is currently reported to the internal audit department each month, which is then reported to the DPS.⁴⁷

Observing the patterns of DPS practices at BMT ABC, the author feels the need for clear regulations that can serve as a reference for DPS in conducting their oversight duties. The current approach by DPS may appear to be primarily a formality and may not address issues down to the lower levels of BMT. Furthermore, because the supervision carried out by DPS relates to risk management, especially reputation risk, which can have implications for other institution-wide risks such as public trust and liquidity, it is crucial to establish clear guidelines.

Conclusion

Based on the research conducted, it can be concluded that the supervision by DPS is currently weak. On the internal front, there are only two DPS members, all of whom have religious backgrounds, and additional qualifications should be considered. Regarding the institution's internal processes, since DPS supervision is based on confirmation or relies solely on reports from BMT, it is essential that BMT provides honest and unfiltered information regarding the challenges faced in the implementation of financing contracts, particularly Murabahah.

In terms of external stakeholders, the community is not directly engaged by DPS.

⁴² Dahlia El-Hawary, Wafik Grais, and Zamir Iqbal, 'Diversity in the Regulation of Islamic Financial Institutions', *The Quarterly Review of Economics and Finance*, 46.5 (2007), 778–800 <<https://doi.org/10.1016/j.qref.2006.08.010>>.

⁴³ Sabur Mollah and Mahbub Zaman, 'Shari'ah Supervision, Corporate Governance and

Performance: Conventional vs. Islamic Banks', *Journal of Banking & Finance*, 58 (2015), 418–35 <<https://doi.org/10.1016/j.jbankfin.2015.04.030>>.

⁴⁴ El.

⁴⁵ El.

⁴⁶ El.

⁴⁷ El.

Therefore, there is a need for a system where the public can submit complaints to DPS or have access to DPS for confirmation in case of product or Sharia principle discrepancies. Finally, the DSN lacks comprehensive authority in terms of oversight, and it should be granted additional authority to enforce sanctions in cases of non-compliance with Sharia principles by Islamic financial institutions.

Credit Authorship Contribution

Endang Sriani: study design, investigation, manuscript drafting, supervision. Iffatul Habibah: study design, data analysis, manuscript review, editing.

Declaration of Competing Interest

The authors declare no competing interests related to this study. There are no financial or personal conflicts of interest.

Data Availability

Data are not available for sharing.

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