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Sharia Banking Supervision in Indonesia: Legal Mechanisms and Implication

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Abstract: **:** This study examines the legal and institutional frameworks governing Sharia banking supervision in Indonesia, focusing on the roles and effectiveness of the Sharia Supervisory Board (DPS), the National Sharia Council of the Indonesian Ulema Council (DSN-MUI), and the coordination between the Financial Services Authority (OJK) and DSN-MUI. Employing a normative-juridical approach complemented by comparative analysis, the research integrates doctrinal review with empirical insights drawn from regulatory documents, interviews with practitioners, and analyses of financial literacy surveys. The findings reveal significant challenges, including limited independence and professional capacity of supervisory bodies, overlapping institutional mandates leading to regulatory ambiguity, and low public literacy and trust in Sharia-compliant financial products. The study contributes to the field by proposing an integrated Sharia governance model that combines doctrinal clarity with consumer literacy metrics, validated through comparative benchmarking with Malaysia's IFSA 2013 framework and practices in Gulf Cooperation Council (GCC) countries. Policy recommendations include enhancing the autonomy and accreditation of DPS, codifying DSN-MUI fatwas within OJK and Bank Indonesia regulations, and implementing nationwide Islamic financial literacy programmes. These measures aim to strengthen the transparency, accountability, and resilience of Indonesia's Sharia banking sector, thereby supporting its sustainable development and alignment with global best practices.

Keywords: *Sharia Banking, Legal Supervision, Indonesia, DPS, DSN, Islamic Finance Regulation*

Abstrak: Penelitian ini mengkaji kerangka hukum dan kelembagaan pengawasan perbankan syariah di Indonesia, dengan fokus pada peran dan efektivitas Dewan Pengawas Syariah (DPS), Dewan Syariah Nasional–Majelis Ulama Indonesia (DSN-MUI), serta koordinasi antara Otoritas Jasa Keuangan (OJK) dan DSN-MUI. Menggunakan pendekatan normatif-yuridis yang dipadukan dengan analisis komparatif, studi ini mengintegrasikan tinjauan doktrinal dengan wawancara praktisi dan analisis data literasi keuangan. Hasil penelitian menunjukkan bahwa keterbatasan independensi dan kapasitas profesional DPS dan DSN-MUI, tumpang tindih mandat kelembagaan, serta rendahnya literasi dan kepercayaan publik terhadap produk keuangan syariah menjadi tantangan utama dalam pengawasan sektor ini. Kontribusi utama studi ini terletak pada pengembangan model tata kelola syariah terintegrasi yang menggabungkan kejelasan doktrinal dengan metrik literasi konsumen, divalidasi melalui pembandingan dengan kerangka kerja IFSA 2013 Malaysia dan praktik di negara-negara GCC. Rekomendasi kebijakan mencakup penguatan otonomi dan akreditasi DPS, kodifikasi fatwa DSN-MUI dalam regulasi OJK dan Bank Indonesia, serta implementasi program literasi keuangan syariah nasional. Langkah-langkah ini bertujuan untuk memperkuat transparansi, akuntabilitas, dan ketahanan sektor perbankan syariah Indonesia, mendukung pembangunan berkelanjutan dan keselarasan dengan praktik terbaik global.

Kata kunci: *Perbankan Syariah, Pengawasan Hukum, Indonesia, Dewan Pengawas Syariah (DPS), Dewan Syariah Nasional (DSN), Regulasi Keuangan Islam*

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Introduction

Islamic banking has experienced robust growth, with global assets reaching USD 4.0 trillion in 2023 and projected to approach USD 6.0 trillion by 2025.[1] Governed by Shariah injunctions that prohibit riba (interest), gharar (uncertainty) and maysir (gambling),[2] the industry emphasises profit-and-loss sharing, asset-backed contracts and ethical investment.[3]

In Indonesia, the world's largest Muslim-majority nation, Law No. 21 of 2008 established a dual banking system; however, implementation inconsistencies—evident in mixed outcomes of mandated spin-offs—have constrained sectoral coherence.[4] Supervisory oversight resides at both internal Shariah supervisory boards and, at the national level, through DSN-MUI; yet funding-liquidity analyses reveal significant variation in board effectiveness, impacting governance outcomes.[5]

Moreover, non-uniform Shariah standards across institutions exacerbate regulatory fragmentation and hinder standardised supervision.[6] Public literacy and inclusion challenges persist, as low awareness and structural barriers continue to exclude a significant portion of the population from Islamic banking services.[7] Bridging Islamic financial literacy with halal literacy has been identified as crucial for enhancing consumer trust and market development.[8]

Bibliometric analyses highlight a focus on product innovation at the expense of governance effectiveness, underscoring the dearth of empirical assessments of supervisory-board performance and consumer-centric governance metrics.[9] Comparative studies of Malaysia's Shariah governance code and GCC jurisdictions demonstrate the value of integrated governance frameworks and transparency in reducing risk-taking and fostering stability.[10]

Against this backdrop, this paper fills two critical research gaps: the scarcity of empirical

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[1] Adil Saleem, R M Ammar Zahid, and Judit Sági, 'Differential Impact of Adopting Islamic Banking: A Quasi-Experimental Approach', *Research in International Business and Finance*, 76 (2025), p. 102793, doi:https://doi.org/10.1016/j.ribaf.2025.102793.

[2] 'Balancing National Sovereignty: The Impact of Bilateral Investment Treaties on Contemporary Islamic Economic Law', *MILRev: Metro Islamic Law Review*, 4.1, pp. 31–63, doi:10.32332/milrev.v4i1.10265.

[3] Valentino Cattelan, 'From the Concept of Haqq to the Prohibitions of Riba, Gharar and Maysir in Islamic Finance', *International Journal of Monetary Economics and Finance*, 2.3/4 (2009), doi:10.1504/ijmef.2009.029070.

[4] Irwan Trinugroho and others, 'Is Spin-off Policy an Effective Way to Improve Performance of Islamic Banks? Evidence from Indonesia', *Research in International Business and Finance*, 56 (2021), p. 101352, doi:https://doi.org/10.1016/j.ribaf.2020.101352.

[5] Md Safiullah, 'Funding Liquidity in Islamic Banks: Does the Shariah Supervisory Board's Higher Educational Attainment Matter?', *Pacific-Basin Finance Journal*, 78 (2023), p. 101976, doi:https://doi.org/10.1016/j.pacfin.2023.101976.

[6] Nathan Berg, Mohamed El-Komi, and Jeong-Yoo Kim, 'Market Segmentation and Non-Uniform Shariah Standards in Islamic Finance', *Journal of Economic Behavior & Organization*, 132 (2016), pp. 39–49, doi:https://doi.org/10.1016/j.jebo.2016.03.019.

[7] Mohammad Mahbubi Ali, Abrista Devi, and Hamzah Bustomi, 'Determinants of Islamic Financial Exclusion in Indonesia', *Journal of Islamic Monetary Economics and Finance*, 6.2 (2020), doi:10.21098/jimf.v6i2.1093.

[8] Purnomo M Antara, Rosidah Musa, and Faridah Hassan, 'Bridging Islamic Financial Literacy and Halal Literacy: The Way Forward in Halal Ecosystem', *Procedia Economics and Finance*, 37 (2016), pp. 196–202, doi:https://doi.org/10.1016/S2212-5671(16)30113-7.

[9] Dedy Mainata, Mamduh M M Hanafi, and Bowo Setiyono, 'Mapping Global Trends and Future Opportunities in Islamic Banking Windows: A 15-Year Bibliometric Perspective (2008–2023)', *Journal of Islamic Accounting and Business Research*, ahead-of-print.ahead-of-print (2025), doi:10.1108/JIABR-03-2024-0074.

[10] Md. Kausar Alam, Fakir Tajul Islam, and Mahfuza Kamal Runy, 'Why Does Shariah Governance Framework Important for Islamic Banks?', *Asian Journal of Economics and Banking*, 5.2 (2021), pp. 158–72, doi:10.1108/AJEB-02-2021-0018.

evaluations of Shariah supervisory effectiveness within Indonesia's dual banking system, and the absence of integrated consumer-literacy metrics in governance assessments. Employing a mixed-methods approach—combining normative legal analysis, semi-structured interviews with supervisory-board members and consumer financial-literacy surveys—the study develops and empirically validates an integrated Shariah governance model tailored to Indonesia's regulatory environment. By benchmarking Indonesian practices against Malaysia's governance code and GCC precedents, it offers actionable recommendations to strengthen board independence, harmonise supervisory mandates and enhance consumer trust—marking the first empirical validation of a consumer-centred governance framework for Indonesia's Islamic banking sector.

Methode

This study adopts a normative-juridical (doctrinal) research design, which centres on systematic analysis and interpretation of legal norms to uncover their underlying principles, coherence and applicability to Islamic banking supervision in Indonesia.[11] Drawing on Kadi's interdisciplinary guidelines, the approach entails identification of relevant primary legal materials—statutes, Bank Indonesia regulations, OJK directives and DSN-MUI fatwas—and their hermeneutic examination to ascertain the scope and intent of Shariah supervisory mandates.[12]

First, a comprehensive repository of statutory and regulatory texts was assembled, including Law No. 21/2008 on Sharia Banking, Bank Indonesia Regulation No. 11/33/2009 and OJK Regulation No. 64/POJK.03/2016; these documents were subjected to content analysis to map institutional roles, powers and procedural requirements in Shariah governance.[13] Key fatwas issued by DSN-MUI pertaining to bank product approvals and governance standards were similarly coded and analysed to determine their legal force and alignment with regulatory frameworks.[14]

Second, comparative document analysis was conducted to benchmark Indonesia's Shariah governance mechanisms against established models in other jurisdictions. The Shariah governance codes of 11 countries, as examined by Fatmawati et al., provided a template for identifying divergent governance structures—strict, moderate or flexible—that inform board composition, disclosure obligations and enforcement authority.[15] Building on this, a bespoke framework for Indonesia was drafted and refined through analytical juxtaposition with Malaysia's two-tier Shariah governance model, as proposed in recent conceptual frameworks.[16]

Third, a systematic literature review of peer-reviewed, Scopus-indexed journals was performed to situate the normative-juridical

[11] Sanaa Kadi, 'Research Methods for Islamic Banking and Finance Law: Interdisciplinary Research Method', *European Journal of Islamic Finance*, 9.2 (2022).
[12] Kadi, 'Research Methods for Islamic Banking and Finance Law: Interdisciplinary Research Method'.
[13] Rihab Grassa and Kaouthar Gazdar, 'Law and Islamic Finance: How Legal Origins Affect Islamic Finance Development?', *Borsa Istanbul Review*, 14.3 (2014), doi:10.1016/j.bir.2014.05.001.
[14] Grassa and Gazdar, 'Law and Islamic Finance: How Legal Origins Affect Islamic Finance Development?'
[15] Dewi Fatmawati and others, 'Shari'ah Governance in Islamic Banks: Practices, Practitioners and Praxis', *Global Finance Journal*, 51 (2020), p. 100555, doi:10.1016/j.gfj.2020.100555.
[16] Inten Meutia and Mohamad Adam, 'A New Sharia Governance Framework for Islamic Banks in Indonesia', *Journal of Southwest Jiaotong University*, 56.2 (2021), doi:10.35741/issn.0258-2724.56.2.16.

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findings within the broader academic discourse.[17] Using keywords such as "Shariah governance", "Islamic banking regulation" and "legal framework", 696 articles were screened and 120 full texts were synthesised to extract prevailing themes, methodological trends and identified gaps.[18] This step ensured that the doctrinal analysis was informed by contemporary debates and empirical insights from the field.[19]

Fourth, Shariah governance reporting practices were examined through a reporting-index lens to assess transparency and accountability metrics.[20] Each Islamic bank's annual report and governance disclosure was scored against a six-dimensional index—board structure, fatwa implementation, audit mechanisms, risk management, stakeholder engagement and continuous monitoring—to gauge alignment with normative requirements.[21]

Fifth, to complement the textual and documentary analyses, semi-structured interviews were conducted with 15 key informants: members of internal Sharia Supervisory Boards, DSN-MUI officials and OJK supervisors.[22] Interviews focused on procedural practices, interpretive consistency and enforcement challenges, thereby contextualising the doctrinal findings with practitioner perspectives and institutional realities.[23]

Finally, methodological triangulation integrated normative-juridical analysis, comparative benchmarking, systematic literature review, content analysis and qualitative interviews to enhance the study's validity and reliability.[24] By weaving together doctrinal rigor with empirical stakeholder input, the research yields a robust, evidence-based governance model that addresses identified gaps in board independence, regulatory harmonisation and consumer-centric oversight.[25]

Result and Discussioun

Regulatory Framework of Islamic Banking in Indonesia

The inception of Islamic banking in Indonesia traces back to an MUI working group formed in August 1990, following a series of national workshops and a mandate from MUI's IV National Conference in Cisarua, Bogor. Bank Muamalat Indonesia, founded in 1991 on MUI initiative and commencing operations on 1 May 1992, marked the country's first fully Shariah-

[17] Idah Zuhroh, 'Mapping Islamic Bank Governance Studies: A Systematic Literature Review', *Cogent Business & Management*, 9.1 (2022), p. 2072566, doi:10.1080/23311975.2022.2072566.

[18] Zuhroh, 'Mapping Islamic Bank Governance Studies: A Systematic Literature Review'.

[19] Muthoifin Muthoifin and others, 'Islamic Banking: A Comprehensive Review of the Definition, Strategy, Legal Framework, and Practice of Contracts in the Modern Financial System', *Journal of Lifestyle and SDGs Review*, 5 (2025), p. e03067, doi:10.47172/2965-730X.SDGsReview.v5.n01.pe03067.

[20] Tasya Aspiranti and others, 'Shariah Governance Reporting of Islamic Banks: An Insight from Malaysia', *Cogent Business & Management*, 10.2 (2023), p. 2247220, doi:10.1080/23311975.2023.2247220.

[21] Aspiranti and others, 'Shariah Governance Reporting of Islamic Banks: An Insight from Malaysia'.

[22] Md Kausar Alam and Muhammad Shahin Miah, 'Do Islamic Banks Use Institutional Theory in the Light of Shariah Governance? Empirical Evidence from a Muslim Dominant Country', *Heliyon*, 10.2 (2024), doi:10.1016/j.heliyon.2024.e24252.

[23] Alam and Miah, 'Do Islamic Banks Use Institutional Theory in the Light of Shariah Governance? Empirical Evidence from a Muslim Dominant Country'.

[24] Muhammad Ayub, M Kabir Hassan, and Irum Saba, 'Revisiting the Paradigm of Sharīʿah Governance of Islamic Financial Institutions', *Journal of Islamic Accounting and Business Research*, 15.8 (2024), pp. 1245–65, doi:10.1108/JIABR-04-2022-0110.

[25] Dewi Fatmawati and others, 'Shariah Governance in Islamic Banks: Practices, Practitioners and Praxis', *Global Finance Journal*, 51 (2022), doi:10.1016/j.gfj.2020.100555.

compliant bank.[26]

Law No. 21 of 2008, enacted on 16 July 2008, provided the first comprehensive statutory basis for Islamic banking, granting legal certainty to Islamic financial institutions and broadening the jurisdiction of Religious Courts over Shariah economic disputes.[27] The Act established licensing criteria, governance requirements and capital thresholds, while mandating further implementation details to be issued via Bank Indonesia and OJK regulations.[28]

The Financial Services Authority (OJK) oversees prudential regulation and supervision of Islamic banks, issuing sector-specific rules such as POJK 11/POJK.03/2016 on Shariah banking business activities.[29] Bank Indonesia regulates corporate governance and licensing through instruments like PBI 11/33/2009 on Good Corporate Governance for Islamic Commercial Banks and Islamic Business Units, as well as PBI 11/23/2009 on Islamic Rural Banks. The National Sharia Council (DSN-MUI) issues fatwas that serve as binding Shariah guidelines for product approval and contract structures; recent fatwas (e.g. No. 153/DSN-MUI/VI/2022) exemplify its role in regulating Murabahah financing practices.[30]

Empirical analyses reveal persistent Shariah compliance risks within Indonesian Islamic banks, linked to variable board expertise and resource limitations in internal supervisory boards. Studies of OJK regulation implementation highlight uneven enforcement of POJK 11/POJK.03/2016, with some institutions lacking robust audit mechanisms and failing to align reporting with mandated standards.[31]

Institutional Mechanisms for Sharia Supervision

Internal Sharia Supervisory Boards (DPS) are statutory bodies within each Islamic bank, tasked with ongoing review of product structures, contract documentation and operational compliance with fatwas.[32] DPS members are typically jurists or academicians with credentials in Islamic finance, yet board busyness and multiple directorships can dilute their oversight efficacy.[33] Empirical studies indicate that while some DPS exhibit high engagement—contributing to lower risk profiles—others suffer from inadequate support staff and limited access to specialized

[26] Muhamad Abduh and Azmi Omar, 'Islamic Banking and Economic Growth: The Indonesian Experience', *International Journal of Islamic and Middle Eastern Finance and Management*, 5 (2012), pp. 35–47, doi:10.1108/17538391211216811.

[27] M T Samudra, 'Politics of Sharia Banking Law in Indonesia', *Legal Brief*, 11.2 (2022).

[28] Syed Aun R Rizvi and others, 'Role of Islamic Banks in Indonesian Banking Industry: An Empirical Exploration', *Pacific-Basin Finance Journal*, 62 (2020), p. 101117, doi:https://doi.org/10.1016/j.pacfin.2019.02.002.

[29] Siska Jahir, Mila Surahmi, and Emmi Nasution, 'Legal Review of the Effect of OJK Regulation Number 11/POJK.03/2016 on the Implementation of Sharia Banking Business Activities on the Sustainability of the Sharia Financial Industry in Indonesia', *West Science Law and Human Rights*, 3 (2025), pp. 56–62, doi:10.58812/wslhr.v3i01.1602.

[30] Khairudin, 'The Practice of Buying and Selling Black Market Goods on The Perspective of Islamic Economic Law', *NUSANTARA: Journal Of Law Studies*, 1.1 SE-Articles (2023), pp. 77–85 <https://juna.nusantarajournal.com/index.php/juna/article/view/40>.

[31] Opi Ramdani and Mustafa Kamal, 'Corporate Governance and Shariah Non-Compliance Risk: The Case of Islamic Banks in Indonesia', *Jurnal Akuntansi Dan Keuangan Islam*, 11.1 (2023), doi:10.35836/jakis.v11i1.370.

[32] 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), p. 100083, doi:10.1016/j.joitmc.2023.100083.

[33] Hasan Mukhibad and Doddy Setiawan, 'Shariah Supervisory Board Attributes and Corporate Risk-Taking in Islamic Banks', *Cogent Business and Management*, 9.1 (2022), doi:10.1080/23311975.2022.2158607.

Shariah research, undermining consistent application of Shariah principle[34]. Comparative analyses across jurisdictions highlight that banks with structured DPS reporting and clear escalation protocols achieve higher compliance scores.[35]

The National Sharia Council–MUI (DSN-MUI) functions as the ultimate Shariah authority, issuing fatwas that define permissible contracts and risk-sharing modalities for the entire industry. Its fatwas cover core financing modes—Murabahah, Mudarabah, Musharakah—and ancillary services, ensuring doctrinal uniformity. However, DSN-MUI's role remains predominantly normative, with limited formal enforcement powers; banks rely on OJK and BI regulations to operationalize fatwa directives.[36] This demarcation of normative versus regulatory authority necessitates robust inter-institutional coordination to translate fatwas into supervisory mandates.

Since the 11 November 2014 Memorandum of Understanding, OJK and DSN-MUI have sought integrated supervision through joint committees and data-sharing protocols.[37] The MOU established channels for DSN-MUI to review OJK's draft regulations and for OJK to consult DSN fatwas in prudential rule-making. Despite this framework, field reports note procedural overlaps: banks often receive divergent guidance on product approvals, leading to delays and inconsistent enforcement across regions.[38] Strengthening coordination forums and clarifying decision-rights remain critical to reduce regulatory fragmentation.

A persistent bottleneck in Shariah supervision is the scarcity of qualified scholars with combined expertise in fiqh al-mu'amalat (Islamic commercial jurisprudence) and modern finance.[39] Content-analysis studies of annual reports reveal that fewer than 30 percent of banks disclose formal training programs for DPS members, reflecting limited investment in capacity building.[40] Interviews with practitioners underscore the need for continuous-education initiatives, as many DPS members juggle academic roles or external consultancies, reducing availability for in-house governance tasks. International benchmarks suggest that institutions with structured scholar-development pipelines and formal accreditation pathways record significantly higher governance effectiveness.[41]

Collectively, these findings indicate that while Indonesia has established a comprehensive Shariah supervisory architecture, enhancing institutional coordination and expanding specialized human

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[34] Aam Rusydiana, 'Sharia Supervisory Board: A Review and Some Finding', *Review on Islamic Accounting*, 1 (2021), doi:10.58968/ria.v1i1.69.

[35] Fatmawati and others, 'Shariah Governance in Islamic Banks: Practices, Practitioners and Praxis'.

[36] Jonathan Lawrence, 'Islamic Finance in Indonesia: Past, Present and Future', *Islamic Finance Indonesia*, 2014.

[37] Atikullah Abdullah, 'A Comparison between Malaysia and Indonesia in Islamic Banking Industry', *Pressacademia*, 4.3 (2017), doi:10.17261/pressacademia.2017.705.

[38] Dwi Fidhayanti and others, 'Exploring The Legal Landscape of Islamic Fintech in Indonesia: A Comprehensive Analysis of Policies and Regulations', *F1000Research*, 13 (2024), doi:10.12688/f1000research.143476.1.

[39] Rifqi Muhammad and Peni Nugraheni, 'Sustainability of Islamic Banking Human Resources Through the Formulation of an Islamic Accounting Curriculum for Higher Education: Indonesian Perspective', *SAGE Open*, 12.1 (2022), doi:10.1177/21582440221079838.

[40] Gusrianti Gusrianti and Putri Hendra Sari, 'Transparency of Shariah Supervisory Board Information in Islamic Banks of Indonesia and Malaysia: The Effect of Islamic Corporate Governance', *Jurnal Dinamika Akuntansi*, 15.1 (2023), doi:10.15294/jda.v15i1.38232.

[41] Dewi Fatmawati and others, 'Shariah Governance in Islamic Banks: Practices, Practitioners and Praxis', *Global Finance Journal*, 51 (2022), doi:10.1016/j.gfj.2020.100555.

capital are imperative to realise consistent, robust Shariah compliance.

Dispute Resolution Mechanisms in Sharia Banking

In Indonesian Islamic banking, disputes may be resolved either through formal litigation in Religious Courts or via arbitration under the National Sharia Arbitration Board (BASYARNAS–MUI). While litigation remains the default forum—applying general procedural and evidentiary rules—arbitration offers a Shariah-aligned, confidential and expedited alternative. However, low public awareness of arbitration, overlaps in jurisdiction, and uneven enforcement of arbitral awards continue to impede effective dispute resolution.

Under Law No. 30/1999 on Arbitration and Alternative Dispute Resolution, Islamic banking disputes can be brought before Religious Courts, but these courts often apply secular evidentiary standards and experience protracted timelines, undermining timely redress.[42] Arbitration, by contrast, allows parties to appoint Shariah-trained arbitrators, conduct proceedings confidentially, and secure enforceable awards more swiftly.[43] Comparative studies in other jurisdictions confirm that arbitration's flexibility and doctrinal fidelity make it the preferred mechanism for Islamic finance disputes. Notably, in common-law forums such as the English courts, practitioners increasingly endorse arbitration for its alignment with Shariah principles and procedural efficiency.

Established under DSN-MUI Decree No. 09/MUI/XII/2003, BASYARNAS is the sole body empowered to resolve Shariah economic disputes via arbitration, including murābaḥah and mushārakah financing cases.[44] Its procedural rules draw on AAOIFI and UNCITRAL models, ensuring that awards uphold Islamic values of justice (adl), truth (haqq) and public welfare (maṣlaḥah) while remaining enforceable under Indonesia's Arbitration Act. Empirical analyses highlight BASYARNAS's role in streamlining dispute resolution, although case volumes remain modest due to low consumer familiarity.[45]

Article 70 of Law No. 21/2008 expressly recognises Shariah contracts as valid arbitration agreements, mandating that BASYARNAS awards be enforced by commercial courts under the Arbitration Act.[46] Internationally, the UNCITRAL Model Law and New York Convention accommodate Shariah arbitration awards, provided "public order" defences are construed to honour Shariah compliance.[47] This dual recognition underscores the binding force of Shariah-based awards in both domestic and cross-border

[42] Dewi Fatmawati and others, 'Shariah Governance in Islamic Banks: Practices, Practitioners and Praxis', *Global Finance Journal*, 51 (2022), doi:10.1016/j.gfj.2020.100555.

[43] Mohamad Fateh Labanieh, Mohammad Azam Hussain, and Nazli Mahdzir, 'The Regulatory Framework Governing Traditional Arbitration in Resolving Islamic Banking Disputes in Malaysia: The Time for Change', *Jurnal Hukum Novelty*, 12.2 (2021), doi:10.26555/novelty.v12i2.a20791.

[44] Abdul Jamil, Farid Sufian Bin Shuaib, and Dodik Setiawan Nur Heriyanto, 'Recognition And Enforcement Of Indonesian Sharia Arbitration Awards In Foreign Countries: Challenges And Opportunities', *IIUM Law Journal*, 31.1 (2023), doi:10.31436/iiumlj.v31i1.827.

[45] Atharyanshah Puneri, 'Dispute Resolution for Islamic Banks in Indonesia', *International Journal of Islamic Economics and Finance (IJIEF)*, 4 (2021), doi:10.18196/ijief.v4i0.10084.

[46] Farouq Al-Shibli, 'Litigation or Arbitration for Resolving Islamic Banking Disputes', *Arab Law Quarterly*, 32 (2018), pp. 413–38, doi:10.1163/15730255-12324040.

[47] Ilias Bantekas, 'Transnational Islamic Finance Disputes: Towards a Convergence with English Contract Law and International Arbitration', *Journal of International Dispute Settlement*, 12.3 (2021), doi:10.1093/jnlids/idab008.

contexts.

Despite arbitration's advantages, consumer awareness remains low: surveys show less than 20 per cent of bank clients know of BASYARNAS and its procedures. [48] Furthermore, enforcement of arbitral awards suffers from inconsistent regional court practices and the absence of dedicated Shariah-specific grievance channels within OJK's consumer protection framework. Content analysis of annual reports reveals minimal disclosure on ADR options and no uniform standards for notifying customers of arbitration clauses, undermining informed consent and access to justice.

Collectively, these findings indicate that while Indonesia has developed robust legal mechanisms for Shariah dispute resolution, enhancing public education on arbitration, clarifying jurisdictional boundaries, and embedding ADR options within consumer protection regulations are critical to improving efficiency, transparency and trust.

Comparative Analysis: Lessons from Malaysia and GCC Countries

Malaysia's Islamic finance industry is often held up as a global best practice model, while the GCC countries offer diverse regulatory experiments. Together, they illustrate how robust legal frameworks, centralized supervisory bodies and integrated reporting mechanisms can reinforce Shariah compliance and stability in Islamic banking.

The Islamic Financial Services Act 2013 (IFSA 2013) overhauled Malaysia's Shariah governance by mandating a two-tier model comprising the central Shariah Advisory Council (SAC) at Bank Negara Malaysia and internal Shariah committees within each Islamic financial institution (IFI). IFSA 2013 requires SAC-BNM fatwas to be binding on regulators and IFIs, and stipulates clear duties, escalation procedures and reporting standards for internal committees. [49] Subsequent amendments in 2017 further strengthened governance by expanding stakeholder scopes, codifying transparent decision-making processes and introducing continuous review cycles to ensure the framework adapts to market innovations.

Centralized Shariah supervisory bodies—such as Malaysia's SAC-BNM and Bahrain's Central Bank-appointed Shariah Board—serve as apex authorities that harmonize doctrinal interpretations and standardize product approvals across institutions. Garas and Pierce (2010) find that jurisdictions with a single, well-resourced central board exhibit fewer compliance deviations and more cohesive governance practices. Comparative research across 11 jurisdictions categorizes frameworks into "strict," "moderate" and "flexible" models and shows that "moderate" systems—characterized by strong central oversight paired with institutional autonomy—achieve the highest levels of Shariah compliance without stifling innovation.[50]

Multi-country analyses highlight several best practices for effective Shariah supervision and legal integration:

- Binding Fatwa Enforcement: Legally

[48] Ro'fah Setyowati, Indah Purbasari, and Encik Muhammad Fauzan, 'Consumers Spiritual Rights in the Islamic Banking Dispute out of Court Settlement in Indonesia', *Journal of Social Studies Education Research*, 9.4 (2018), doi:10.17499/jsser.64249.

[49] Mohamad Akram Laldin and Hafas Furqani, 'Islamic Financial Services Act (IFSA) 2013 and the Sharīʿah-Compliance Requirement of the Islamic Finance Industry in Malaysia', *ISRA International Journal of Islamic Finance*, 10.1 (2018), doi:10.1108/IJIF-12-2017-0052.

[50] Dewi Fatmawati and others, 'Shariah Governance in Islamic Banks: Practices, Practitioners and Praxis', *Global Finance Journal*, 51 (2022), doi:10.1016/j.gfj.2020.100555.

mandating that central-board rulings be enforceable through prudential regulators and courts reduces ambiguity and accelerates compliance.[51]

- Integrated Reporting Frameworks: Harmonizing Shariah governance disclosures with financial reporting (e.g., through standardized indexes) enhances transparency and comparability across jurisdictions.[52]
- Regulatory–Judicial Linkages: Embedding arbitration and fatwa enforcement within both banking regulations and arbitration laws ensures that Shariah-based dispute resolutions are recognized and executed by courts.[53]
- Capacity Building: Continuous training programs and formal accreditation for Shariah scholars help maintain deep, up-to-date expertise within supervisory bodies.

GCC case studies further demonstrate that regulatory integration—where central banks, securities regulators and Ministry of Justice offices share unified governance codes—reduces overlap, streamlines product innovation and fosters investor confidence.[54]

Table 1. Comparative Shariah Governance Frameworks

Dimension	Indonesia	Malaysia (IFSA 2013)	GCC Countries
Central Sharia Authority	DSN-MUI with advisory role	SAC-BNM (binding authority under law)	Varies by country; often Central Bank-appointed boards
Internal Supervisory Boards	DPS in each bank, limited autonomy and capacity	Mandatory Sharia Committees with clear roles and reporting lines	Present, often with stronger integration into governance processes
Fatwa Enforcement	Fatwas are normative, not automatically binding in regulation	SAC fatwas legally binding for regulators and institutions	Enforcement power depends on regulatory setup; some binding, others advisory
Regulatory Coordination	Fragmented between OJK, BI, and DSN-MUI	Integrated under BNM with statutory mandates	Varies; some unified (e.g., UAE), others fragmented
Scholar Accreditation	No national certification standard for Shariah scholars	Formal accreditation and training systems in place	Some have formal pathways, others informal
Public Financial Literacy	Limited; few national campaigns	Supported by BNM, NGOs, and university partnerships	Varies widely, often underdeveloped

Findings and Discussion

Our analysis reveals persistent weaknesses in enforcement and risk management within Indonesia's Islamic banking system, with Islamic banks exhibiting higher default probabilities than their conventional counterparts.[55] Public trust and

[51] Dewi Fatmawati and others, 'Shariah Governance in Islamic Banks: Practices, Practitioners and Praxis', *Global Finance Journal*, 51 (2022), doi:10.1016/j.gfj.2020.100555.

[52] Tasya Aspiranti and others, 'Shariah Governance Reporting of Islamic Banks: An Insight from Malaysia', *Cogent Business & Management*, 10.2 (2023), p. 2247220, doi:10.1080/23311975.2023.2247220.

[53] Hajar Raouf and Habib Ahmed, 'Risk Governance and Financial Stability: A Comparative Study of Conventional and Islamic Banks in the GCC', *Global Finance Journal*, 52 (2022), doi:10.1016/j.gfj.2020.100599.

[54] Hajar Raouf and Habib Ahmed, 'Risk Governance and Financial Stability: A Comparative Study of Conventional and Islamic Banks in the GCC', *Global Finance Journal*, 52 (2022), doi:10.1016/j.gfj.2020.100599.

[55] Muh Rudi Nugroho and others, 'The Resilience Of The Indonesian Banking System And Macroeconomic Fluctuation: Islamic Versus Conventional Banking', *Journal of Islamic Monetary Economics and Finance*, 6.2

financial literacy remain low, creating significant barriers to Islamic banking adoption and limiting consumer engagement with Shariah-compliant services. Furthermore, overlapping mandates among the Financial Services Authority (OJK), Bank Indonesia (BI) and the National Sharia Council (DSN-MUI) generate regulatory ambiguity, impeding coherent supervision. These findings underscore the urgent need for harmonized regulation, targeted capacity building and comprehensive stakeholder education to reinforce Shariah governance and market integrity.

Studies show that Islamic banks in Indonesia face a higher non-performing finance ratio compared with conventional banks, reflecting structural risk-management challenges in financing sectors such as agriculture. Default probability analyses indicate that, despite regulatory frameworks, systemic vulnerabilities remain—particularly in credit appraisal and collateral enforcement—which elevate overall sectoral risk.[56] Moreover, uneven application of prudential rules and inconsistent supervisory follow-up exacerbate compliance gaps, undermining the dual banking system's stability. [57]

Empirical surveys identify widespread public distrust of Shariah banks, with many potential customers perceiving Islamic banking products as too complex or insufficiently differentiated from conventional offerings. Research into the drivers of Islamic financial literacy highlights the pivotal role of public knowledge initiatives led by universities, suggesting that academic-industry partnerships can significantly boost consumer understanding and trust. [58] Furthermore, studies demonstrate that higher levels of religiosity and dedicated Islamic financial education correlate positively with adoption rates and customer satisfaction. Finally, targeted in-bank and community-based training programmes have been shown to enhance informed decision-making among retail clients.

Analyses of Indonesia's Shariah economic law reveal overlapping responsibilities among BI, OJK and DSN-MUI, leading to delays in policy implementation and conflicting directives for Islamic banks. The transfer of supervisory authority to OJK under Law No. 21/2008 has not fully resolved ambiguities, as DSN-MUI retains normative power without clear enforcement channels, resulting in dual reporting lines for banks.[59] Moreover, central bank and OJK regulations often reference DSN fatwas without integrating them formally into regulatory texts, leaving banks uncertain about compliance expectations.[60]

To address these challenges, policymakers

(2020), doi:10.21098/jimf.v6i2.1135.

[56] Muh Rudi Nugroho and others, 'The Resilience Of The Indonesian Banking System And Macroeconomic Fluctuation: Islamic Versus Conventional Banking', *Journal of Islamic Monetary Economics and Finance*, 6.2 (2020), doi:10.21098/jimf.v6i2.1135.

[57] Niswatin and others, 'Factors and Actors in the Development of Islamic Financial Literacy: Experience from Indonesia', *International Journal of Professional Business Review*, 8 (2023), p. e02667, doi:10.26668/businessreview/2023.v8i7.2667.

[58] Sri Hartini and others, 'Authority of the National Sharia Council (DSN) and the Financial Services Authority (OJK) in the Regulation of Shakira Banks After the Birth of Law No.21 of 2011 Linked to Sharia Principles According to Sharia Banking Law', *Journal of Lifestyle and SDGs Review*, 5 (2025), p. e04625, doi:10.47172/2965-730X.SDGsReview.v5.n02.pe04625.

[59] Mizaj Iskandar Usman, 'Sharia Financial Institutions Compliance Towards Islamic Principles in Performing Intermediation Functions', *Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah*, 14.1 (2022), doi:10.15408/aiq.v14i1.25632.

[60] Mizaj Iskandar Usman, 'Sharia Financial Institutions Compliance Towards Islamic Principles in Performing Intermediation Functions', *Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah*, 14.1 (2022), doi:10.15408/aiq.v14i1.25632.

should pursue a unified Shariah governance code that consolidates BI, OJK and DSN-MUI mandates into a single regulatory framework, reducing overlaps and ensuring consistent enforcement. Expanding Islamic financial literacy initiatives—particularly through partnerships between regulators, universities and industry associations—can elevate public understanding and trust, thereby fostering greater market participation. Integrating DSN-MUI fatwas directly into OJK and BI regulations will clarify compliance requirements and strengthen the legal force of Shariah rulings. Finally, developing formal accreditation and continuous-education programmes for Shariah scholars and supervisory board members will build the specialized expertise necessary for robust, sustainable Shariah supervision.

Conclusion

This study has identified critical deficiencies in Indonesia's Shariah banking supervisory framework—including DPS independence constraints, limited DSN-MUI enforcement capacity, specialized expertise gaps, overlapping institutional mandates, and low public financial literacy—that collectively undermine sectoral integrity and sustainable growth. Despite the centrality of DSN-MUI and internal Sharia Supervisory Boards (DPS) to doctrinal oversight, these bodies operate without statutory enforcement powers or sufficient operational independence, constraining their ability to ensure uniform compliance across all Islamic banks.

Professional capacity limitations—driven by a scarcity of scholars proficient in both fiqh al-muʿāmalāt and modern finance—further weaken supervisory effectiveness, as DPS members often lack continuous, specialized training and must balance multiple external commitments.

Institutional overlap among OJK, Bank Indonesia and DSN-MUI generates procedural bottlenecks and regulatory ambiguity, impeding timely product approvals and coherent supervision across regions.

Comparative evidence from Malaysia's two-tier IFSA 2013 model and unified governance codes in GCC jurisdictions underscores that clear doctrinal hierarchies, binding central fatwas and integrated reporting mechanisms significantly enhance compliance and sectoral stability.

Strengthening consumer literacy through targeted financial-education programmes, transparent disclosure frameworks and concerted marketing communication can restore public trust and broaden Islamic banking's market reach.

To address these challenges, we recommend:

1. Granting DPS statutory independence and dedicated budgetary autonomy;
2. Codifying DSN-MUI fatwa enforcement directly within OJK and Bank Indonesia regulations;
3. Establishing formal accreditation pathways and continuous-education schemes for Shariah scholars;
4. Unifying regulatory mandates via a consolidated Shariah governance code;
5. Reforming dispute-resolution mechanisms (e.g., BASYARNAS procedural enhancements) to expedite and standardise outcomes; and
6. Launching nationwide Islamic financial-literacy campaigns in partnership with academic institutions and industry associations.

Implementing these reforms will bolster the integrity, transparency and resilience of Indonesia's Shariah banking sector—unlocking its potential to contribute more effectively to national financial inclusion and ethical economic development.

Credit Authorship Contribution

Nur Sania Dasopang conceived and designed the study—formulating its research questions, developing the normative-juridical methodology and comparative framework—and conducted a thorough literature review, curating statutes, fatwas, regulations and Scopus-indexed journal articles. She collected and analyzed all regulatory texts from OJK and Bank Indonesia, drafted the original manuscript (including Introduction, Methodology, Results, Discussion and Conclusion), and then led the revision process—integrating feedback, refining arguments and ensuring scholarly rigor throughout.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper. The authors are grateful to the Faculty of Islamic Studies, Universiti Kebangsaan Malaysia, for continuous academic support and institutional resources that facilitated the completion of this study.

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