

A COMPARATIVE STUDY ON SHARIA GOVERNANCE AND SUPERVISORY AUTHORITY IN ISLAMIC BANKING OF INDONESIA AND MALAYSIA

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ABSTRACT

One of the critical aspects in the development of Sharia banking is Sharia compliance, which differentiates Islamic banks from conventional banks. To ensure adherence to Sharia principles, a sound supervisory mechanism is required which is undertaken by the Sharia Supervisory Board (*Dewan Pengawas Syariah*, DPS). The aim of this study is to analyze the legal framework governing Sharia compliance supervision in Islamic banking in Indonesia and Malaysia, focusing on the role and authority of the DPS in each jurisdiction, using a qualitative research design based on fieldwork. The results show that those countries use a two level supervisory structure in Sharia governance. A Sharia fatwa council is obligated to standardize and harmonize Sharia rulings for the macro level, and institutional Sharia councils are responsible for overseeing the implementation of these fatwas within financial institutions at the micro level. The difference on the principal between both systems lies in the legal status of the fatwa council. In Malaysia, the Sharia Advisory Council (SAC) functions as a statutory body under the central bank, whereas in Indonesia, the Sharia National Council (*Dewan Syariah Nasional*) operates as a non-governmental organization under the Indonesian Islamic Scholar Council (*Majelis Ulama Indonesia*, MUI). These organizational distinctions affect the legal standing and binding nature of the fatwas issued by each council.

Introduction

Bank Muamalat Indonesia establishment in 1992 marked the rapid development of Sharia banking in Indonesia. Several factors leads the development, such as using Sharia label in business activities, particularly within the Islamic financial sector and these factors encompass both banking and non-banking institutions. In the banking sector, there are Sharia commercial banks (*Bank Umum Syariah*, BUS) and Sharia business units (*Unit Usaha Syariah*, UUS). In the non-banking sector, there exist Sharia-compliant pawnshops, insurance companies, and capital markets (Antonio, 2001). To respond the fast-growing expansion of Sharia banking, Bank Indonesia (BI) has encouraged these institutions to reinforce their financial performance while obeying to Sharia principles (Bank Indonesia, 2022). To achieve this, the BI has issued various policies and facilities as part of the Blueprint for the Development of Islamic Banking in Indonesia. Among its issues, BI emphasises that Sharia banking practices must continue to uphold the principles of Good Corporate Governance (GCG) (Bank Indonesia, 2017).

The Organization for Economic Cooperation and Development (OECD) asserts that GCG is an essential mechanism for promoting healthy business practices (Organization for Economic Cooperation and Development, 2004). However, BI knows that GCG implementation in Sharia banks must comply with universal governance principles and align with Sharia provisions (Alias et al., 2024). Due to this, BI issued Bank Indonesia Regulation (PBI) No. 11/33/PBI/2009 on the Implementation of Good Corporate Governance for Sharia Banks (*Peraturan Bank Indonesia* (PBI) No.11/33/2009). The main differences between GCG in Sharia and conventional banking is in the aspect of Sharia compliance. The other principles, such as transparency, integrity, prudence, and accountability, are similar on both systems. However, a study conducted by BI in collaboration with several institutions discovered that public confidence in Sharia compliance among Sharia banks were lacking, mostly because of the recurring concerns and complaints related to adherence to Sharia principles (Bank Indonesia, 2001).

Sharia compliance represents one of the most prominent aspects in the development of Islamic banking and becomes the key element that differs from conventional banks. To ensure compliance with Sharia provisions held well, the Sharia Supervisory Board (*Dewan Pengawas Syariah*, DPS) becomes a supervisory mechanism (Junusi, 2012). The DPS has the authority to oversee the operations of Sharia financial institutions, both banking and non-banking, to ensure that they comply with the *fatāwā* (Sharia rules) issued by the National Sharia Council of the Indonesian Islamic Scholar Council (*Dewan Syariah Nasional – Majelis Ulama Indonesia*, DSN-MUI) (Andri Soemitra, 2009). The DPS operates under the General Meeting of Shareholders (GMS) or an equivalent management structure to strengthen its effectiveness in fulfilling its supervisory duties and functions (Sutanto & Umam, 2013).

There are two domains of supervision in Sharia banking: “financial supervision” to ensure compliance with conventional prudential standards, and “Sharia supervision” to ensure the adherence with Islamic principles. Respectively, there are also internal and external supervision system employed by the DPS (Wirdyaningsih, 2006). However, in reality, a DPS member often serves on multiple Sharia boards from various institutions which makes impairment in supervisory effectiveness due to overlapping appointments which can lead to split attention and reduced oversight quality. Despite specific legal provisions prohibition on dual role, they may compromise supervisory performance. Consequently, public perception persists that Islamic banks is not different from the conventional banks but its terminology. This situation prompts people to continue using conventional banking services.

This perception is illustrated in cases such as Decision No. 211/Pdt.G/2013/PN.MLG and Decision No. 128/Pdt.G/2013/PN.Ska, arising in Malang and Surakarta which involved disputes on *Murābahah* (marked-up profit) financing contracts. The issues were managed without correct Sharia-compliance procedures, leading to customer dissatisfaction. Further investigation revealed that the DPS had limited awareness of the operational implementation of such contracts, focusing only on approving standard operating procedures (SOPs) before product launch. This statement concludes that the implementation is still inconsistent and highlights more effective DPS supervision to ensure real Sharia compliance in banking operations (Poundrianagari, 2021).

Meanwhile, Malaysia uses adopts centralised supervisory structure by using the Sharia Advisory Council (SAC) as the Sharia authority under Bank Negara Malaysia (BNM), accompanied by the Sharia Committees within individual financial institutions through BNM, which has the authority in issuing *fatāwā* (binding legal opinion). While in Indonesia, the DSN-MUI operates independently as a non-governmental entity authorised to issue *fatāwā*. The SAC was established to ensure uniform approval of Islamic financial products and services, to promote standardisation across the industry, and to verify Sharia compliance in all Islamic business activities. Its decisions are binding upon Islamic financial institutions, the courts and arbitrators (Islamic Financial Services Act, 2013). Malaysia also differs between conventional and Islamic finance under separate legislative regimes. Conventional finance utilizes the Financial Services Act 2013 (FSA) and the Islamic Financial Services Act 2013 (IFSA) is for Islamic finance. The rules integrate regulatory frameworks across banking, insurance, payment systems, and foreign exchange administration. It replaces existing financial legislation. IFSA 2013 applies comprehensively to all sectors of the Islamic financial industry in Malaysia (Islamic Financial Services Act, 2013).

Generally, DPS has a main role across different jurisdictions, which is ensuring that financial products, services, and operations are in line with Sharia principles as from the Qur'an and Sunnah. However, effective supervision requires awareness of various institutional, procedural, and regulatory factors to ensure adherence to Sharia guidelines. In the end, there are still challenges concerning DPS members' understanding of their duties and responsibility in upholding the Sharia compliance. From this issue, it is necessary to explore deeper on the authority and role of the Sharia Supervisory Board in implementing Sharia compliance in the Islamic financial institutions, focusing on Sharia banking.

Literature Review

Sharia Compliance Concept

Sharia compliance is about the adherence of Islamic banks to the principles of Islamic law in the context of economic and financial activities (Mohd Faisal & Mamat, 2022). The basic principles of Sharia banking are based on this concept. According to Sutedi, Sharia banking compliance becomes the guidelines in many aspects, such as products, systems, techniques, and corporate identity. This also involves further elements, such as interior design, staff uniform, and institutional impression (Sutedi, 2009; Sumanti et al., 2024; Wazin et al., 2025). Arifin defines Sharia compliance as the implementation of Islamic principles and traditions inside the operations of banking and other financial institutions. While Ansori views Sharia compliance as a significant indicator of an Islamic bank's commitment in ensuring Sharia principles application in every aspects (Arifin, 2009).

Sharia Supervisory Board

The Sharia Supervisory Board (*Dewan Pengawas Syariah*, DPS) ensures that financial institutions are run with Sharia principles which encompass *fiqh* (Islamic jurisprudence) and *mu'āmalah* (social and economic dealings), particularly within the context of contemporary Islamic economics and finance. The DPS functions as an independent supervisory body makes sure financial institutions operate ethically and suit with Islamic law. Through this supervisory function, the DPS can strengthen public confidence and provides Muslim communities with financial services which is match with their religious values (Hidayati et al., 2021).

At first, we must outline the concept of authority, its meaning, types and sources and continued to discuss the theoretical perspective on the authority, duties and functions of the DPS. The term “*wewenang* or *kekuasaan*” (authorities) are commonly used in public law and both have different meaning. Authority, also known as “formal power”, derived from a law or legislative mandate in the executive or administrative functions. While power can also refer to the collective capacity of a group or governing body in a particular sector, authority specifically refers to the legal right to command and to demand compliance (Witasari, 2016). The theory of authority is related to the source of governmental power to conduct legal acts in public or private law. Authority can be divided into two categories from its source:

- i. Personal authority, which derives from an individual's knowledge, expertise, moral standing, or leadership qualities; and
- ii. Official authority, which originates from a higher legal or institutional mandate.

The DPS is tasked with overseeing Islamic financial institutions to ensure that their operations consistently comply with Shariah principles and to uphold their reputation as Shariah-compliant entities. This supervision has role to strengthen monitoring mechanisms in preventing deviations. Supervision also continues to seek and correct violations to ensure that institutional practices is in line with Islamic ethical standards. A weak supervisory system can bring irregularities or fraud which may harm stakeholders and society.

Shariah compliance is also significant in approving and issuing new financial products in Islamic institutions. Therefore, massive checks and balances are indispensable, particularly given the fast expansion of the Islamic financial industry, as they are consistent with the overarching objectives of *maqāṣid al-sharī'ah* (the higher objectives of Islamic law) (Heradhyaska & Pamesti, 2021).

Consequently, the DPS which serves as the supervisory board for Islamic banks, owns an authority comparable to the board of commissioners in conventional banks. Its responsibilities involve: reporting on operational procedures and product development, conducting periodic supervision of Sharia compliance, providing recommendations for institutional development, and reviewing matters discussed by the National Sharia Council (*Dewan Syariah Nasional*, DSN). These functions are in accordance with Article 32 paragraphs (3) and (4) of Law No. 21 of 2008 on Sharia Banking and Bank Indonesia Regulation No. 6/24/PBI/2004 concerning Sharia Commercial Banks operating in compliance with Sharia principles (Jamil et al., 2021).

Methodology

Qualitative research approach is used for this study to describe and analyse events, phenomena, attitudes, social activities, perceptions, and beliefs of individuals or groups (Sutopo & Arief, 2010). The aim here is to explore a specific issue or phenomenon systematically and in detail data collection to reveal the significance and meaning of the data (Kriyantono, 2012; Alomar et al., 2025). This research design is a field study, in data collection is done by interviews and observation. This approach lets an examination of a specific institution or phenomenon deeply to obtain data that are relevant and accurate data (Arikunto, 2005). Data collection uses three methods: observation, interviews, and documentation. It is done in order to collect information reflecting the actual condition and practices of the studied institutions. The research locations focus on two key institutions responsible for Sharia compliance supervision: the *Dewan Syariah Nasional – Majelis Ulama Indonesia* (DSN-MUI) in Indonesia and the Sharia Advisory Council of Bank Negara Malaysia (SAC-BNM) in Malaysia. Those two institutions become the main focus, where data collection and analysis are conducted to obtain precise and comprehensive insights into the mechanisms of Sharia compliance supervision in both jurisdictions.

Results and Findings

Legal Provisions for Implementing Sharia Compliance Supervision in Sharia Banking in Indonesia and Malaysia

In Indonesia, Sharia compliance in the banking sector is managed by a regulations system. The main regulation is Law No. 21 of 2008 on Sharia Banking, added by supplementary instruments such as Bank Indonesia Regulations (PBI) and Financial Services Authority Regulations (POJK). Together, these legal instruments establish a comprehensive framework to ensure adherence to Sharia principles in the Islamic financial institutions across the country.

On the other hand, Malaysia has developed a more integrated and comprehensive regulatory framework that provides strong support for Sharia compliance in the Islamic banking. The main instruments include the Islamic Financial Services Act 2013 (IFSA 2013), Bank Negara Malaysia/ Rahn & Wadiah Guidelines (BNM/RH/GL_012_3), the Central Bank of Malaysia Act 2009 (CBA 2009), the Guidelines on Persons Licensed to Provide Islamic Financial Services (BNM/GPSI 2004), and the Capital Adequacy Framework

(CBA 2009). These instruments strengthen the governance and supervision of Islamic financial operations towards Sharia principles.

Beside the national regulations, Indonesia and Malaysia also comply the international standards issued by key Islamic financial organisations, such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The IFSB, has issued several guiding documents, including the Exposure Draft on Guiding Principles of the Sharia Governance System and the Guidance Note on Key Elements in the Supervisory Review Process. The documents above are utilized to promote Sharia governance, enhance transparency, and reinforce the credibility of the Islamic financial system globally.

Simultaneously, the national and international legal frameworks make sure valid Sharia compliance in the operations of Islamic banks. With this, it will enable the sector to function in full conformity with the principles of Islamic law.

The Role and Authority of the Sharia Supervisory Board (DPS) in Implementing Sharia Compliance in Sharia Banking in Indonesia and Malaysia

In Indonesia, Sharia supervision obeys a centralised system operating at two levels: the institutional level, represented by the Sharia Supervisory Board (*Dewan Pengawas Syariah*, DPS), and the national level, represented by the National Sharia Council (*Dewan Syariah Nasional*, DSN) under the Indonesian Islamic Scholar Council (*Majelis Ulama Indonesia*, MUI). The MUI, a non-governmental organisation, is responsible in issuing *fatāwā* to meet the needs of the Muslim community (MUI, September 14, 2023). In this structure, the DSN has specific authority to issue *fatāwā* related to Sharia-compliant economic and financial activities. After the issuance, these *fatāwā* become the foundation to formulate laws and regulations for some institutions such as Bank Indonesia (BI), the Financial Services Authority (*Otoritas Jasa Keuangan*, OJK), and the House of Representatives (*Dewan Perwakilan Rakyat*, DPR).

The main function of DSN is to issue *fatāwā* related to Islamic financial institutions. With the scholars and experts in Islamic economics and *fiqh al-mu'āmalah* (jurisprudence in social and economic life), the members are appointed for a five-year term. In addition to issuing *fatāwā*, the DSN provides recommendations about the composition of DPS members appointed to serve in Islamic banking institutions (Nurhisam, 2016). The appointment of DPS members is conducted through the General Meeting of Shareholders (GMS) upon receiving DSN recommendations. The DSN itself operates as an autonomous body under the MUI, led *ex officio* (by virtue of office) by the MUI Chairperson (Imaniyati, 2016).

Within modern Islamic society, the concept of the DPS represents an institutional evaluation of the classical *Muhtasib* (supervisor) function, which is an official historically tasked with monitoring compliance with Islamic law in commercial and social affairs. Today, the DPS serves as a specialised organisation responsible for ensuring that financial products and activities adhere to Sharia principles. Pursuant to DSN Decree No. 3 of 2000 on Guidelines for Implementing DPS Budget Determination in Islamic Financial Institutions (*Lembaga Keuangan Syariah*, LKS), the DPS is obliged by the DSN to do direct supervision of Sharia compliance in the field and to act as the primary filter for new financial products before their issuance (Nurhisam, 2016).

The DPS has two main functions: as an advisor and as a mediator. As an advisor, it provides guidance to Islamic banks dealing on Sharia issues, assists in ensuring operational compliance, and advises management in line with Islamic principles. As a mediator, it serves as an intermediary between Sharia banks and the DSN, facilitating consultations to improve the quality and conformity of products and services. DPS supervision extends from the initial product design and contractual stages to post-execution monitoring, thereby minimising potential violations of Sharia principles.

From Sharia banking, the DPS must make sure that management decisions and all operational aspects are in line with Islamic law (Suryani, 2014). They must also evaluate the level of Sharia obedience and identify potential deviations (Nurhisam, 2016). In some Sharia financial institutions such as *Lembaga Keuangan Syariah* (LKS), DPS roles are typically categorised into three main models: advisory, supervisory, and departmental. Supervision is conducted based on international standards issued by the

Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB).

The DPS' supervision is conducted in two phases: pre-implementation and post-implementation. First, it reviews proposed business activities and ensures that the products and services obey the *fatāwā* issued by the DSN. On the other hand, it provides Sharia arguments for publication reports and assesses new products before turning in to the DSN approval. Every six months, the DPS must submit supervisory reports to the board of directors, board of commissioners, DSN, and Bank Indonesia, ensuring transparency and accountability in the bank's Sharia compliance practices (Anggadini, 2022).

The structure of the Shariah Supervisory Board (DPS) in Shariah banking in Indonesia is equivalent to a board of commissioners, as shown in the picture below:

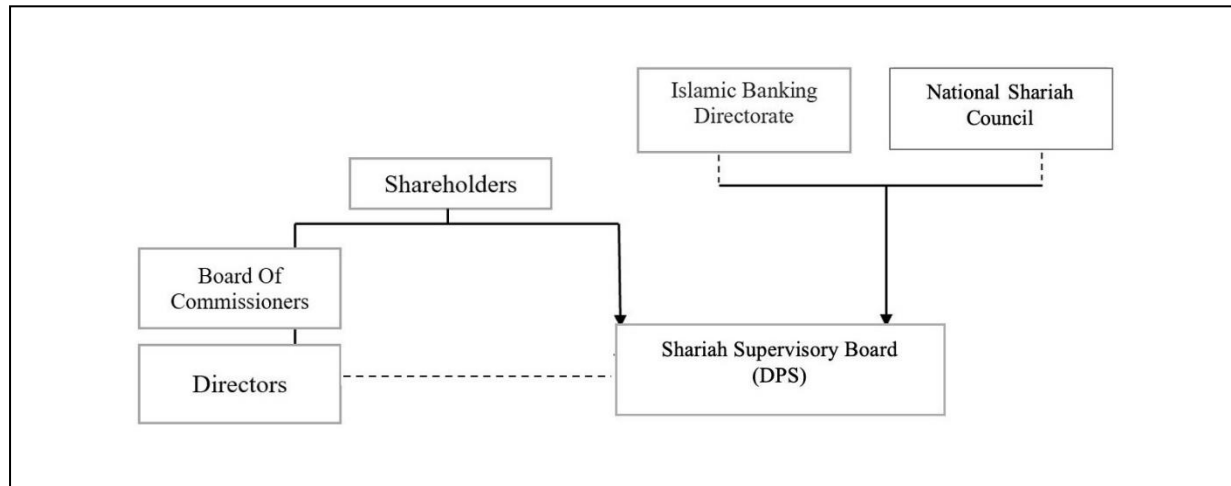


Figure 1. Image of Sharia Supervisory Board (DPS) Position in Sharia Banking

In Malaysia, Sharia governance is also structured across two supervisory levels. The first is the Sharia Advisory Council (SAC) established under Section 51 of the Central Bank of Malaysia Act 2009 (CBMA 2009); the second is the Sharia Committee (SC) at the institutional level. The SAC, functioning under the Bank Negara Malaysia (BNM), is the main body responsible for Sharia overseeing of Islamic financial institutions (Laldin, 2012). Its members are appointed by the Yang di-Pertuan Agong, upon BNM's recommendation, and must possess expertise in Sharia, finance, economics, and other related disciplines.

The SAC's responsibility includes formulating regulations on Islamic banking matters, ensuring compliance with Sharia principles, and harmonising *fatāwā* across the industry (Sirajuddin, 2018). Some of the regulations that require the establishment of a SAC, as well as section 51 of the CBMA 2009 (Central Bank of Malaysia Act 2009). Referred to 58 of the CBMA 2009, the SAC conducts their operation as the highest authority in Islamic finance and maintains coordination with the *Mu'āmalah* Bench, a special high court division tasked with adjudicating Islamic finance cases (Amiruddin, 2018). *Fatāwā* issued by the SAC are binding upon Islamic financial institutions, courts, and arbitrators (Zaini et al., 2012).

The Shariah Committee (SC) has the functions at the institutional level to supervise Sharia compliance in daily operations. Under the rules by BNM, SC members are recruited by the board of directors for the period of two-year terms and can be renewed by BNM's approval. The SC reviews institutional activities, prepares compliance reports, and makes sure the obedience to the Shariah regulation. The committee is specially backed up by the Sharia audit, Sharia review, Sharia research, and Sharia risk management functions. All of them operate independently within the organisational structure to maintain objectivity and oversight integrity (Amiruddin, 2018).

Malaysia's Sharia Governance Framework (SGF) 2010 has rigid prerequisites for SC members, such as: being Muslim, having at least a bachelor's degree in Sharia—including *uṣūl al-fiqh* or *fiqh al-mu'āmalah*—from a recognised institution, and demonstrating proficiency in both Malay and English skills. The regulation permits for the inclusion of members with financial or legal backgrounds, such as for

individuals not from the majority. This policy makes sure diversity of expertise while maintaining the Sharia-centric orientation of the committee. The SGF also requires that any resignation or dismissal of SC members be reported to BNM at least 16 days before the resignation, although it does not specify the permissible grounds for dismissal.

The jobs of the SC are regulated in the SGF 2010 by BNM. The duties and responsibilities of SC are very important in making sure that financial company activities are by Sharia principles and obey applicable regulations. The organizational structure of Sharia governance in Islamic banking in Malaysia can be seen from the figure below:

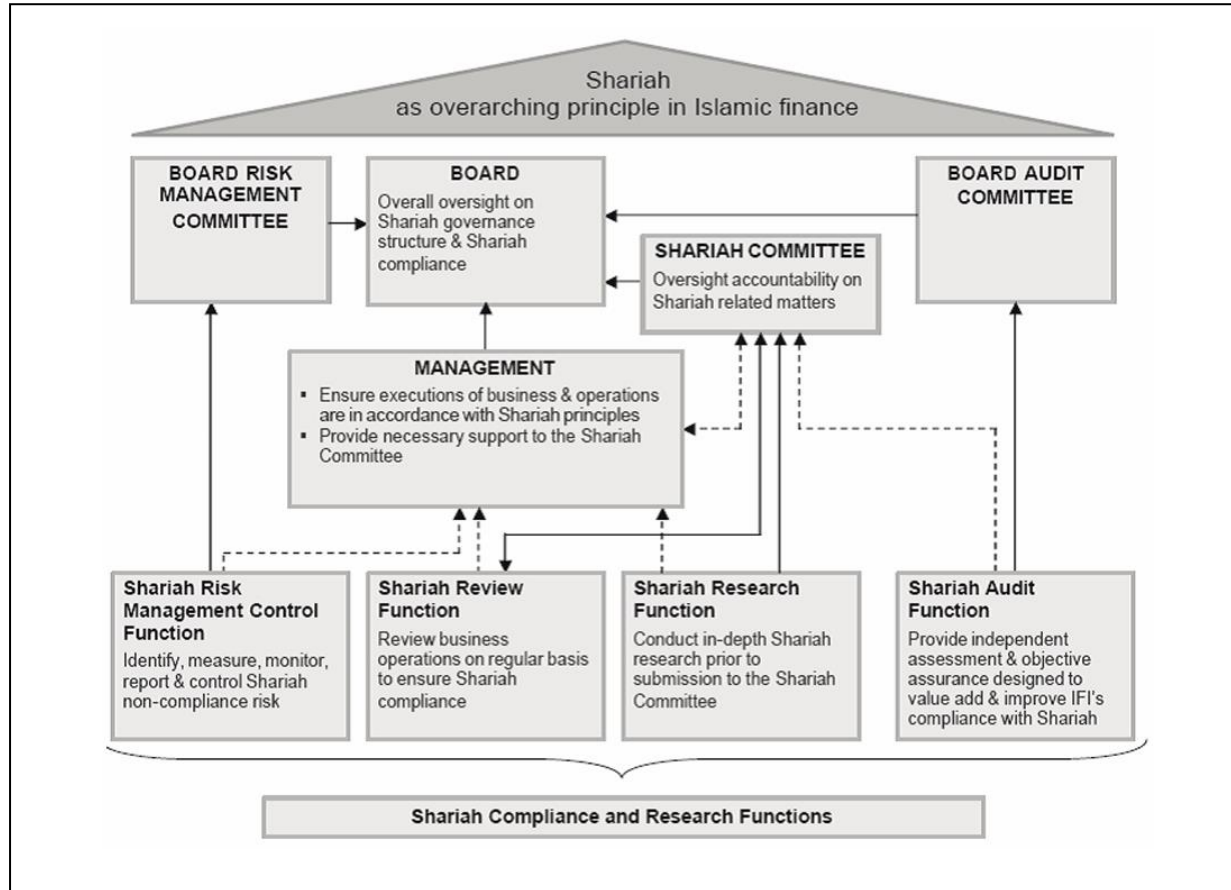


Figure 2. Sharia Governance Organizational Structure of Sharia Banking in Malaysia. Guidelines on Sharia Governance Framework for Islamic Financial Institutions (BNM, 2010)

From this, it can be concluded that Shariah supervision in Malaysian Islamic banking does the job through an extensive structure consisting of the Board's Risk Management Committee, Shariah Committee and Shariah Audit Committee. As one, they ensure continuous monitoring and accountability, which a cohesive Sharia governance system. Although they have this rigorous structure, there are still many challenges. Data show that the DPS in Indonesia still faces several weaknesses in implementing effective supervision for Sharia compliance. These weaknesses include limited independence, overlapping positions, short tenure, reduced work effectiveness, and insufficient technical competency, especially in Sharia auditing (Mardian, 2015).

Prabowo and Jamal (2017) highlights eleven key weaknesses in Indonesia's DPS framework:

- i. The absence of a dedicated supervisory institution exclusively overseeing Sharia banking;
- ii. DPS functioning merely as a symbolic component without specific expertise-based criteria;
- iii. Appointment of DPS members for their public stature rather than technical competence;
- iv. Financial dependence on the banks they supervise, compromising independence;

- v. Limited availability due to other professional commitments;
- vi. Lack of authority to enforce corrective action;
- vii. Vulnerability of Islamic banks to systemic supervisory failures;
- viii. Weak legal mechanisms for assessing Sharia compliance;
- ix. Limited DPS skills in auditing, accounting, economics, and business law;
- x. Absence of an effective internal Sharia control structure; and
- xi. Continued violations of Sharia principles, particularly among banks that have converted from conventional to Islamic systems.

Conversely, Malaysia, through BNM, has demonstrated strong responsiveness by issuing comprehensive guidelines to enhance Sharia compliance. However, there are some several shortcomings related to the SC (Syarif, 2019). One of them is the unclear procedure for the dismissal of SC members. Under the SGF for Islamic Financial Institutions (IFIs) 2010, institutions must notify BNM of a resignation or dismissal 16 days before, without specifying any reasons. This weakness can bring uncertainty in governance and undermine the transparency of supervision processes. Clarifying the matter would strengthen procedural fairness and confidence in Sharia governance.

Table 1. The Comparison of Shariah Supervisory Board (DPS) in Indonesia and Shariah Committee (SC) in Malaysia

Category	DPS – Indonesia	SC – Malaysia
Institutional Role	Considered a complementary component in shariah banks; often lacks strategic influence	Plays a strategic role under the supervision of Bank Negara Malaysia (BNM)
Appointment Criteria	Often based on charisma or popularity rather than expertise in shariah economics or banking	Regulated appointment procedures, with expectations of relevant qualifications and experience
Independence and Objectivity	DPS members are appointed and paid by the institutions they supervise, potentially compromising objectivity	SC operates under a more independent regulatory framework supervised by BNM
Expertise and Time Commitment	Many DPS members are part-time professionals with limited availability and lack technical expertise in auditing, accounting, and economics	SC members are generally expected to be more dedicated and professionally involved in shariah governance
Authority in Supervision	DPS has no real enforcement power—can only issue warnings; lacks authority to take decisive action	SC has clearer roles and recognition, though enforcement still lies with BNM and the institutions
Internal Control Mechanism	No effective internal mechanism or clear operational structure within institutions for shariah supervision	Operates under detailed Shariah Governance Framework (SGF) set by BNM
Legal Standing and Compliance Impact	Weak legal position in influencing or assessing shariah compliance; often ignored in decision-making	Stronger legal foundation due to direct integration with national regulatory system
Common Issues or Weaknesses	Symbolic function rather than technical; Frequent violations of shariah principles go unchecked; DPS often lacks auditing and legal literacy	Lack of clarity in dismissal procedures of SC members; Some governance transparency issues remain
Regulatory Framework	Supervision mechanism is generally considered ineffective and inefficient; lacks integration with national shariah regulatory bodies	BNM provides comprehensive shariah compliance guidelines and authority to issue policy documents governing Islamic financial institutions (IFIs)

The difference between Indonesia and Malaysia also takes place in their rules on holding multiple positions. In Malaysia, dual functions are strictly regulated. The Central Bank of Malaysia Act 2009 forbids the members of the SAC from working on SCs of any Islamic financial institution at once to prevent conflicts of interest between the national *fatwa* authority and institutional supervisors. Also, SC members may only serve in one other Islamic financial institution. These restrictions promote transparency, maintain focus, and ensure that Sharia supervision remains effective and impartial. This approach emphasizes Malaysia's commitment in maintaining the integrity and quality of Sharia supervision within its Islamic financial system.

Based on the data and the analysis, the conclusion can be taken. In Indonesia, Sharia compliance in the banking sector is regulated through a special legislative framework, mainly Law No. 21 of 2008 on Sharia Banking, supported by additional regulations such as Bank Indonesia Regulations (PBI) and Financial Services Authority Regulations (POJK). These instruments together make sure the adherence with Sharia principles in Sharia banking operations. Meanwhile, Malaysia has developed a more comprehensive and integrated regulatory framework governing Sharia compliance. Main legislative references include the Islamic Financial Services Act 2013, Bank Negara Malaysia Rahn & Wadiah Guidelines (BNM/RH/GL_012_3), the Central Bank of Malaysia Act 2009, the Guidelines on Persons Licensed to Provide Islamic Financial Services (BNM/GPSI 2004), and the Capital Adequacy Framework (CBA 2009).

Moreover, Indonesia and Malaysia obey the international guidelines developed by global standard organizations such as the Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) such as the IFSB - Exposure Draft Guiding Principles on Sharia Governance System and the IFSB - Guidance on Main Elements in the Supervisory Review Process. Altogether, these frameworks are designed to strengthen Sharia compliance in Islamic banking operations, making sure that institutions function in accordance with the Islamic law.

Conclusion

Indonesia and Malaysia employ two phases of supervisory structure for Sharia governance. At the macro level, a national Sharia council is responsible for standardising and harmonising *fatāwā* (Sharia rulings), while at the micro level, institutional Sharia councils must implement and monitor those regulations in the financial institutions. The difference between these two countries is in the legal status of their Sharia council. In Malaysia, the SAC functions as a statutory body under the authority of the central bank, allowing its *fatāwā* binding legal force. In contrast, Indonesia's *Dewan Syariah Nasional* (DSN) operates as a non-governmental organisation under the *Majelis Ulama Indonesia* (MUI), which results in a differing degree of legal enforceability of its *fatāwā*.

Despite their similar structure, the effectiveness of the Sharia Supervisory Board (DPS) in Indonesia is still limited. The DPS has not yet fully exercised its authority or functions optimally in making sure Sharia obedience in the Islamic banking institutions. This shortcoming may ruin public trust in Islamic financial institutions if not properly addressed. Therefore, the institutional position and authority of the DPS — currently in the organisational structure of Islamic banks — should be re-evaluated to enhance its independence and supervisory effectiveness. Strengthening the autonomy of the DPS is essential to make sure that Sharia obedience is upheld consistently, transparently, and in a manner equivalent to the oversight role exercised by the board of commissioners in conventional banking institutions.

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