



Challenges in Supervising Sharia Banking to Ensure Compliance with Sharia Principles

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ABSTRACT

Supervision in Islamic banking is a fundamental aspect to ensure that operational activities comply with sharia principles. However, despite the rapid development of Islamic financial institutions, various challenges still hinder comprehensive sharia compliance. This study aims to analyse the challenges of supervision in Islamic banking, particularly regarding the competence of the Sharia Supervisory Board (SSB), institutional independence, effectiveness of the supervisory system, and regulatory disharmony between OJK (Financial Services Authority) and DSN-MUI (National Sharia Council). The research employs a qualitative descriptive approach through library research, using content analysis and thematic analysis methods on various academic literatures and official documents published within the last five years. The findings reveal that the SSB still faces limitations in both expertise and strategic roles, supervision tends to be administrative in nature, and there is a lack of regulatory harmonization aligned with sharia objectives (Maqashid Syariah) and global standards. Therefore, sharia supervision reform should be directed towards strengthening competence, restructuring the SSB's authority, and integrating both national and international standards into the Islamic banking governance system in Indonesia.

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INTRODUCTION

Islamic banking has been rapidly developing in Indonesia as an alternative financial system based on Islamic values, which prohibits usury (*riba*), gambling (*maisir*), and excessive uncertainty (*gharar*). However, alongside the growth of Islamic financial institutions and products, concerns have emerged regarding the adherence to Sharia principles in practice. One of the main challenges is the weak supervisory system, which ensures that operational practices are truly in line with Sharia fatwas and the objectives of Sharia (maqashid) (Lailiya & Kusumaningtias, 2024).

Studies conducted on several Islamic financial institutions indicate that the presence of the Sharia Supervisory Board (*Dewan Pengawas Syariah*, *DPS*) is often merely formal, with

limitations in both authority and adequate expertise to carry out substantial supervisory functions. This has led to the emergence of deviant Sharia practices, such as murabahah transactions resembling conventional loans, as well as weak control over the technical implementation of Sharia contracts (Nurhasanah, 2022).

Recent research at a regional Islamic bank also highlights the importance of the active role of the Sharia Supervisory Board (DPS) in internal processes, particularly in overseeing the compliance of new products with Sharia fatwas. The study concluded that the DPS is not fully involved in product design but merely provides administrative approval at the final stage (Rahmatika & Andriansyah, 2025).

On the other hand, regulations from authorities such as the OJK and DSN-MUI have provided general guidelines regarding the role of Sharia supervision. However, implementation in the field reveals a gap between regulations and practice, as not all Islamic banks possess adequate human resources or effective internal control systems (Alhalimi & Andrini, 2024). Therefore, this study aims to analyze the challenges of Sharia banking supervision in ensuring compliance with Sharia principles and to provide strategic recommendations that can strengthen governance and oversight based on Sharia values.

METHODS

This study employs a descriptive qualitative approach based on library research. This approach is used because the research does not involve the collection of primary data, such as interviews or field observations, but is instead based on the review of various scholarly sources and official documents. The focus is on analyzing the phenomenon of Sharia banking supervision in depth, drawing on literature that includes journal articles, academic books, as well as regulations such as DSN-MUI fatwas and OJK guidelines. The qualitative library approach is used to explore the meaning of the phenomenon in its natural context and to interpret complex issues based on texts. Through this method, the researcher can examine both the theory and practice of Sharia supervision that have developed, without the need for field data collection.

The types and sources of data in this study consist of secondary data, systematically collected from various literature and official documents relevant to the topic of Sharia banking supervision. These data types include scholarly articles from national and international journals published within the last five years (2019–2025), academic books discussing Sharia supervision and the governance of Islamic banks, as well as official regulatory documents such as OJK regulations, DSN-MUI fatwas, and the Qanun on Islamic Financial Institutions in Aceh. These documents serve as an analytical foundation to identify key themes and challenges in the supervision of the Sharia banking system.

In library research on the regulation and supervision of Islamic financial institutions, secondary data from journals and official documents are crucial for illustrating the dynamics of product regulation and the implementation of supervision before and after key regulations are enacted (Maryam, 2020). Thus, the collection of secondary data through literature review is an appropriate method for producing a rich and comprehensive analysis.

The data collection technique was carried out through documentation, a systematic process of searching, accessing, selecting, and classifying relevant literature. The literature used as primary sources in this study had to meet several criteria: published within the last five years, issued by academic institutions or official bodies such as OJK, DSN-MUI, and IFSB, and accessible in PDF format to allow for proper scientific citation and storage for further analysis.

Literature was collected through various academic platforms, including Google Scholar, Portal Garuda, DOAJ, and Research Gate, which provide open-access scholarly articles from multiple disciplines relevant to the research topic.

The data analysis in this study relied on content analysis and thematic analysis methods, aimed at deriving meaning from the collected literature and documents. First, the researcher conducted an in-depth reading of each article, regulatory document, and fatwa to identify patterns, concepts, and narratives related to the challenges of Sharia banking supervision, such as the competence of the DPS, independence, supervisory effectiveness, and regulations. This process was followed by organizing the findings into main themes, which facilitated the structured presentation of the research arguments.

To ensure the validity and credibility of the research findings, the researcher employed several data source validation strategies. First, both internal and external source criticism was conducted to ensure that the sources used had scientific authority, originated from reputable authors and institutions, and were published within a relevant timeframe. Second, literature triangulation was applied by comparing content from various sources with similar themes to verify consistency and accuracy of information. Third, content selection was carried out by choosing only literature that substantially discussed Sharia supervision, maintaining the focus of the analysis. In library research, validity depends on the researcher's ability to select credible sources and present interpretations that are rational and contextually grounded.

RESULTS AND DISCUSSION

A. Results

1. Competence of the Sharia Supervisory Board (DPS)

The quality of Sharia supervision is greatly influenced by the competence of the Sharia Supervisory Board (DPS), which is responsible for ensuring that the bank's operations comply with Sharia principles. Studies indicate that there is still a knowledge gap between the understanding of fiqh muamalah (Islamic commercial jurisprudence) and financial accounting within the DPS. Many DPS members have not yet obtained specialized certifications or undergone comprehensive periodic training in Islamic economics and banking product auditing (Rusydiana, 2021).

These shortcomings make it difficult for the DPS to evaluate complex financial products and result in a failure to detect deviations from Sharia principles at an early stage. Other studies also indicate that the limited number of active and competent DPS members in some Islamic banks restricts the supervision of various product portfolios (Abdurrahman et al., 2020).

2. Independence and Involvement of the DPS in Internal Processes

The independence of the DPS remains a serious issue in Islamic banking. Many institutions treat the DPS merely as an administrative formality rather than a strategic part of product decision-making. The DPS is rarely involved from the initial stages of financial product design and is often only asked to provide final approval, with little room to correct or revise Sharia-related content (Putri et al., 2025).

The DPS's independence is often compromised due to its structural ties to bank management, making it difficult to perform objective control functions. Moreover, unclear hierarchical relationships between the DPS, management, and regulators weaken

the effectiveness of supervision over products that may carry the risk of non-compliance with Sharia principles (Mauluddi et al., 2024)..

3. Effectiveness of Supervision in Maintaining Sharia Compliance

The effectiveness of supervision over Sharia compliance is determined by three main factors: the competence of the DPS, internal reporting systems, and contract documentation. Not all Islamic financial products are thoroughly evaluated by the DPS, as many members still lack a deep understanding of contract structures and their practical implementation in the field (Maahir et al., 2024). Furthermore, the absence of a comprehensive Sharia audit documentation system makes it difficult for the DPS to assess compliance with DSN-MUI fatwas in detail. Other studies also emphasize the importance of the DPS's involvement in periodic supervision and its role in Sharia risk management to prevent practices involving gharar or hidden riba (Yusra et al., 2024).

4. Regulatory Challenges and Harmonization of Supervision

Another challenge in Sharia banking supervision is the overlap and lack of harmonization between OJK and DSN-MUI regulations. Existing regulations do not fully reflect the values of justice and accountability, particularly in the implementation of supervision based on Sharia maqashid (Nurhasanah, 2021). In addition, the absence of national standards for DPS training and Sharia audits has led to variations in quality among Islamic banks in Indonesia. Effective Sharia supervision should follow substantive principles, not merely administrative procedures. At the global level, literature also emphasizes the importance of harmonizing Sharia governance standards with international institutions such as AAOIFI and IFSB.

B. Discussion

1. Competence of the Sharia Supervisory Board (DPS)

The competence of the DPS is a fundamental pillar in maintaining the integrity of the Islamic banking system. Findings indicate that many DPS members still experience gaps in mastering two critical areas: fiqh muamalah (Islamic commercial jurisprudence) and financial accounting. When the DPS lacks a technical understanding of contract structures and product practices, the potential for violations of Sharia principles—such as riba, gharar, or tadlis—becomes very high. The implementation of murabahah contracts in working capital financing often deviates from the principles of Islamic economic jurisprudence, as it is not accompanied by a thorough understanding of transaction structures (Yoni Hendrawan & Zainuddin, 2021).

From the perspective of institutional theory, the effectiveness of a supervisory institution is largely determined by its internal capacity, including the quality of human resources. The DPS is not merely a religious symbol but a technical and strategic actor requiring dual expertise: Sharia knowledge and financial analysis (Rusydiana, 2021).

Although the number of DPS members may be sufficient in quantity, their quality still falls short of keeping pace with the complexity of contemporary Islamic financial products. Without intensive training and standardized competencies based on national certification, the DPS struggles to play an active role in the early detection of deviations in banking products (Fakhruddin et al., 2024).

Therefore, efforts to enhance competence should not rely solely on individuals but must also be supported by national policy, including mandatory training based on international standards such as AAOIFI and IFSB.

2. Independence and Involvement of the DPS in Internal Processes

Ideally, the DPS should act as an independent supervisor, free from internal pressures. However, in practice, many DPS members serve merely as administrative complements, involved only at the final stage without contributing to product design. This situation reflects a power imbalance between bank management and the DPS.

From the perspective of agency theory, the DPS functions as an agent representing Sharia interests before management, the principal. When this relationship is unbalanced, supervisory control is weakened. The structure of the relationship between the DPS and management is often not clearly regulated, making the DPS hesitant to take a critical stance against policies that violate Sharia principles (Mauluddi et al., 2024).

To address this issue, institutional reforms are needed, including revising regulations regarding the position and reporting of the DPS, such as making the DPS directly accountable to DSN-MUI or OJK, and strengthening transparency and periodic performance evaluations of the DPS by independent authorities.

3. Effectiveness of Supervision in Maintaining Sharia Compliance

The effectiveness of supervision is not only about the presence of the DPS within the bank's structure but also its active involvement in all processes: from contract design, Sharia audits, to operational evaluations. Previous studies show that supervision is often administrative in nature and does not address substantive Sharia aspects.

From the perspective of maqashid Sharia, supervision must ensure the preservation of Islamic values such as protection of wealth (hifdz al-maal), justice (adl), and transaction blessings. Supervision that fails to prevent practices involving gharar or hidden riba does not fulfill these maqashid functions. Poor contract documentation and the absence of regular Sharia audits allow violations to occur systematically and go undetected. Therefore, integration between internal Sharia audits and Sharia-based risk management systems is necessary so that the DPS can conduct comprehensive and effective supervision (Yusra et al., 2024).

4. Regulatory Challenges and Harmonization of Supervision

Beyond internal institutional issues, another major challenge is the lack of alignment between OJK and DSN-MUI regulations. Effective supervision requires harmony between system regulators (OJK) and Sharia substance supervisors (DSN-MUI). The Islamic principle of hisbah, which emphasizes oversight, should be implemented through a legal system that is just and accountable, not merely administrative (Nurhasanah, 2021).

Without harmonization, fatwas risk being treated merely as supplementary documents rather than core guidelines. Therefore, a regulatory convergence framework needs to be developed that integrates Sharia principles with OJK's prudential standards within a unified Sharia governance system. Additionally, Indonesia should actively adopt and adapt international standards, such as those from IFSB and AAOIFI, so that Indonesian Islamic banks can meet global standards without losing their local Sharia identity.

CONCLUSION

Based on the analysis and discussion of the challenges in supervising Sharia banking to ensure compliance with Sharia principles, it can be concluded that Sharia supervision in Indonesia still faces several critical issues, both at the institutional and regulatory levels. First, regarding the competence of the Sharia Supervisory Board (DPS), many members still lack adequate skills in mastering fiqh muamalah and Islamic financial accounting. Limited training, certification, and technical experience hinder the DPS's ability to understand contract structures and detect deviations from Sharia principles at an early stage. Second, in terms of independence and involvement, the DPS often functions merely as an administrative body rather than a strategic actor. It is rarely involved in the early stages of Sharia product design and lacks independent authority to assess and correct product content that may deviate from Sharia principles. The institutional relationship between the DPS and bank management remains unclear and unevenly regulated. Third, regarding the effectiveness of supervision, the DPS has not been able to conduct comprehensive oversight due to weak internal reporting systems, inadequate contract documentation, and limited involvement in risk management. This results in poor control over potential violations, such as gharar and hidden riba, and fails to fully reflect the substantive objectives of maqashid Sharia. Fourth, in terms of regulation and harmonization, gaps exist between OJK regulations and DSN-MUI fatwas, hindering integrated and effective Sharia supervision. This lack of harmonization is further compounded by the absence of national standards for DPS training and certification, as well as the suboptimal adoption of international standards such as AAOIFI and IFSB. Thus, the challenges in Sharia banking supervision are not merely technical but also stem from weak integration between regulations, institutional capacity, and the maqashid Sharia values that underpin the Islamic financial system. Comprehensive reforms are needed in human resources, supervision systems, and regulatory harmonization to establish Sharia governance that is both sustainable and integrity-driven.

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