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Shariah Governance Practice on Indonesian Islamic Banks

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ABSTRACT

Research Aims: This study aims to assess the implementation of Shariah governance in Indonesian Islamic banks.
Methodology: This study utilises a qualitative approach coupled with content analysis; this study evaluates the alignment of Sharia Supervisory Board (SSB) practices with relevant regulations.
Research Findings: The analysis revealed that none of the Islamic banks breached regulations or deviated from the prescribed criteria in the Sharia Supervisory Board (SSB) recruitment or characteristics.
Theoretical Contribution: This study is poised to enrich the diversity of backgrounds within the Sharia Supervisory Board (SSB), aiming to elevate its overall quality.
Research limitation and implication: This study exclusively examines the framework of Sharia governance within the context of Indonesia, and therefore, the findings should be separate from diverse country contexts.

***Keywords**: Islamic Bank, Shariah Governance, Shariah Supervisory Board, Content Analysis, SSB Characteristics.*

INTRODUCTION

Shariah governance in Islamic banks has garnered significant attention from researchers due to its distinctive structure, which complements non-shariah corporate governance (Muhamad & Sulong, 2019). In the realm of Islamic Financial Institutions (IFI) corporate governance, the Shariah governance system plays a pivotal role, as evidenced by the establishment of a governance committee at the director level, with reporting on Shariah governance incorporated into annual reports for enhanced implementation (Sueb et al., 2022). The emergence of Shariah governance in the nineteenth century, following the establishment of Islamic banks and finance, marked a revolutionary phase in formulating rules to ensure compliance with Islamic law, aligning with the growing number of companies adhering to Shariah principles (Muneeza & Hassan, 2014).

The global financial crisis posed challenges for conventional banks worldwide Johnes et al., 2014, with Smolo and Mirakhor (2010) contending that interest-based financial products and speculation played a role in triggering the crisis. Conversely, Islamic banks, governed by strict Shariah principles prohibiting interest and financial speculation, were able to navigate through the crisis successfully (Dridi & Hasan, 2014). The protective role of the Islamic financial intermediary model in reducing potential losses and shocks during financial crises is highlighted as Islamic banks prioritise supporting assets in the real sector (Majdoub et al., 2016).

The allure of researching Shariah governance in Islamic banks is further accentuated by the inseparable link between Islamic banks and governance failures leading to financial collapses (Muhamad & Sulong, 2019). Instances such as the failures of Ihsan Finance in Turkey (2001), Islamic Bank of South Africa (IBSA) in 1997, Islamic Investment Companies of Egypt (IICE) in 1988, and Dubai Islamic Bank (DIB) and Islamic Bank Malaysia Berhad (BIMB) in 2005 underscore the critical role of governance. The failures were attributed to poor governance, inadequate control systems, weak risk management, and non-compliance with Shariah principles in operational activities (Nomran et al., 2018). Good Shariah governance practices are critical contributors to risk mitigation and the enhancement of financial stability for IFIs (Prasojo et al., 2022b).

The governance of Islamic banks in Indonesia has garnered the attention of academics and Islamic finance practitioners in recent years (Rusydiana & Sanrego, 2018). This is unsurprising given the importance of governance in ensuring compliance with Shariah principles and maintaining financial stability in Islamic financial institutions (Muhamad & Sulong, 2019). Several studies have examined various aspects of Islamic bank governance in Indonesia. Research by Mihajat (2019) underscores the importance of transparency in governance and the role of supervisory authorities in ensuring adherence to Shariah principles. Additionally, research by Abdullah et al. (2013) highlights the need to strengthen internal and external oversight mechanisms in Islamic bank governance to reduce risks and enhance public trust. Several studies have shed light on different facets of Shariah governance in Indonesian Islamic banking (Darmadi, 2013; Amidjaya & Widagdo, 2020). These studies stress the significance of transparency in governance and the regulatory authorities' role in ensuring compliance with Shariah principles. Meanwhile, recent research by Setiawan et al. elucidates the importance of involving relevant parties, such as Shariah supervisory boards, in the strategic decision-making process within Islamic banks (Syafa & Haron, 2019). They emphasise that engaging critical stakeholders in decision-making can improve accountability and adherence to Shariah principles.

Governance in Indonesian Islamic banks is complex and demands attention from stakeholders. This study aims to enhance transparency, oversight, and stakeholder engagement to ensure the sustainability of Islamic financial institutions. It evaluates Shariah governance mechanisms, focusing on transparency, regulatory oversight, and stakeholder involvement, particularly the Shariah Supervisory Board. This exploration identifies strengths and weaknesses in the current governance framework and provides practical recommendations to improve Shariah governance practices. The findings aim to guide policymakers, regulators, and industry practitioners in upholding Islamic finance principles and ensuring stability.

LITERATURE REVIEW

Islamic Banking and Shariah Governance

Established in Egypt in 1970, Islamic Financial Institutions (IFIs) have experienced global proliferation, numbering 458 by 2009 (Garas & Pierce, 2010). The dynamic growth of IFIs underscores the need for enhanced governance systems to reflect institutional performance accurately. Islamic banking, facilitating financial services such as savings, financing, and investments for Muslims, plays a pivotal role (Zain & Shafii, 2018). Adherence to Shariah principles in every transaction underscores the indispensable role of the Shariah Supervisory Board (SSB) (Ajili & Bouri, 2017). This board enriches corporate governance frameworks by fostering transparency, trust, ethical behaviour, and adherence to religious values, safeguarding against failures in the Islamic finance industry (Grassa, 2016).

IFIs, mandated to ensure shariah compliance in operational contracts, necessitate a vigilant SSB that discloses information to shareholders (Ahmed et al., 2018). The SSB system, a vital management instrument, is crucial for overseeing shariah aspects, engaging in supervision, monitoring, auditing, and issuing regulations and fatwas within IFIs. Its efficiency is paramount in maintaining the integrity of IFIs and aligning their activities with Shariah principles, thus contributing to the sustainability and success of the Islamic finance industry globally.

Shariah Governance Framework

As articulated by Hazizi and Kassim, 2019, corporate governance encompasses a comprehensive set of functions, regulations, habits, and applicable laws that delineate how a company should be governed. Simultaneously, the Shariah governance framework, outlined by Ajili and Bouri, 2018, introduces unique dimensions such as deliberation, supervision facilitated by the Shariah Supervisory Board (SSB), and Shariah audits. The Islamic perspective on corporate governance, influenced by the epistemology of Islam's oneness of God (Buallay, 2019), aligns decision-making processes with theories rooted in Islamic principles.

Accounting standpoint, governance serves as a tool of accountability, with companies viewed as resource collections necessitating transparent reporting to stakeholders regarding asset utilisation, storage, maintenance, and reporting (Ajili & Bouri, 2018). The accuracy of this information is particularly crucial for public companies, as investors heavily rely on it. Various corporate governance models exist worldwide, with the Anglo-Saxon model prevalent in the US, Canada, Australia, and other developed countries, emphasising the separation of ownership and management, often manifesting through an independent executive board (Kaur, 2018).

Shariah governance practices globally exhibit variations, with decentralisation, centralisation, and a mixed approach. In decentralisation, independent SSBs in Islamic banks (IBs), unregulated by central banks, hold authority over Shariah compliance decisions. GCC countries, including Kuwait, Saudi Arabia, Bahrain, Qatar, UAE, Jordan, Yemen, Gambia, and Indonesia, typically adopt this approach. In contrast, centralisation, adopted by Malaysia, Pakistan, and Sudan, involves a national-level SSB in the central bank overseeing and standardising Shariah compliance nationwide. The adoption of Shariah governance frameworks varies across regions, with the GCC favouring decentralisation and Malaysia opting for centralisation to strengthen compliance through Shariah review, audit, and risk management functions (Mansour & Bhatti, 2018; Nomran et al., 2017).

These diverse governance structures highlight the multifaceted nature of corporate governance, encompassing cultural, philosophical, and regulatory aspects that shape the governance landscape globally. Studying these varied models contributes to a nuanced understanding of the complexities of governing companies, whether from a conventional or Islamic financial perspective.

Shariah Governance in Indonesia

In the Indonesian context, the development of customer confidence in Islamic banking remains a crucial area for improvement. Many Indonesians still perceive Islamic banks as merely substituting conventional terms with Islamic ones, essentially viewing them as no different from traditional banks. Compounding this, there is a notable gap in the competency of individuals occupying critical positions within Indonesian Islamic banks, particularly concerning compliance with Islamic principles. This has led to the formulation of business strategies that sometimes deviate from Islamic principles, resulting in negative customer experiences and the potential erosion of trust in Islamic banking.

Address this challenge, Indonesian Islamic banks must prioritise cultivating high-quality human resources well-versed in banking practices and Islamic principles. Personnel in Islamic banks should possess technical competence and an intrinsic commitment to conveying a deep understanding of the governance system embedded in Islamic banking. Increased customer comprehension of the Islamic banking system is pivotal for enhancing confidence, fostering customer loyalty to Indonesian Islamic banks and concurrently expanding market share (Fauzi & Suryani, 2019).

On a broader scale, adopting Shariah governance structures in Indonesia requires enhancement, aligning more closely with global best practices. This emphasises the need for continuous improvement and alignment with international standards to fortify the foundation of Islamic banking in the country (Mihajat, 2019).

Figure 1. Regulation of Shariah Governance in Indonesia

Regulation	Description
1. Constitution 21st Tahun 2008 about Sharia Commercial Bank (Republik Indonesia, 2008)	Sharia Commercial Banks (SCBs) and Sharia Business Units (SBUs) are mandated to establish a Sharia Supervisory Board (SSB), a process formalised through the General Meeting of Shareholders and guided by recommendations from the Indonesian Ulema Council (MUI). According to Chapter V, Article 32, of the relevant regulations, the SSB is responsible for providing counsel to the directors and overseeing the bank's activities, ensuring strict adherence to Sharia principles.
2. PBI 11th/3/PBI 2009 about Islamic Banking (Bank Indonesia, 2009)	a. The Sharia Supervisory Board (SSB) is at the bank's head office. Its qualifications include (1) integrity, characterised by a commitment to complying with Sharia banking regulations, good character, and passing the Bank Indonesia fit and proper test; (2) competence, demonstrated through knowledge and experience in Sharia law, as well as general banking or finance; (3) financial reputation, involving a clean record regarding bad loans, bankruptcy, or involvement in causing bankruptcy within the last five years (Article 35).

Regulation	Description
	b. The SSB is entrusted with advising directors and supervising bank activities in line with Sharia principles. Its duties encompass (1) ensuring compliance with Sharia principles for operational guidelines and products, (2) overseeing the development of new bank products, (3) evaluating fatwas to the National Supervisory Board for new products without existing fatwas, (4) periodically reviewing Sharia compliance in fundraising, fund allocation, and banking services mechanisms, and (5) requesting data and information related to Sharia aspects of bank work units (Article 35). c. The SSB comprises at least two members and a maximum of fifty per cent of the board of directors. The chairman leads the members, with each member holding positions in at most four other Sharia financial institutions (Article 36). d. Banks must obtain Bank Indonesia's approval before appointing SSB members. Candidates need MUI's recommendation, and the general meeting of shareholders' appointment becomes effective only after receiving Bank Indonesia's approval (Article 37). e. Bank Indonesia's approval for SSB members is based on application completeness, correctness, and interviews. Approval is granted within thirty days of the application, becoming invalid unless reported by the bank within ten days of the effective appointment, accompanied by supporting documents (Article 38). f. Dismissals or resignations of SSB members must be reported to Bank Indonesia within ten days of occurrence (Article 39).
3. PBI 11th/33/PBI/2009 about the implementation of good corporate governance for the Islamic Bank and Islamic Business Unit (Bank Indonesia, 2009)	a. The stipulated requirements for the Sharia Supervisory Board (SSB), including the prescribed number, criteria, and regulations regarding dual positions, are outlined in Article 44. b. Proposals for the replacement of SSB members during the General Meeting of Shareholders (GMS) should consider remuneration and nomination committee recommendations, with the term of office aligning with that of the Board of Commissioners, as per Article 45. c. SSB is granted permission to execute duties and responsibilities under Good Corporate Governance (GCG) principles, as specified in Article 46. d. In fulfilling their duties, SSB is obligated to submit reports on the results of semi-annual supervision, with the submission to Bank Indonesia required within two months after the conclusion of the semester, as detailed in Article 47. e. SSB members must effectively allocate sufficient time to carry out their duties and responsibilities under Article 48. f. Regular SSB meetings, convened at least monthly, employ consensus agreement for decision-making. All decisions are collectively recorded in meeting minutes, ensuring thorough documentation of meeting outcomes, per Article 49. g. SSB members must disclose any dual positions in the Good Corporate Governance (GCG) report, as stated in Article 50. h. Article 51 outlines several prohibitions for SSB members, including utilising Sharia Commercial Banks (SCB) for personal interests that may diminish SCB assets or profits. Furthermore,

Regulation	Description
	they are prohibited from receiving additional facilities beyond those determined by the GMS, required to disclose received remuneration and facilities in GCG reports, and barred from concurrently serving as consultants in any SCB or Sharia Business Unit (SBU).
4. SEBI 12th/13/DPbS/2010 about the implementation of good corporate governance for the Islamic Bank and Islamic Business Unit (Bank Indonesia, 2010)	a. The responsibilities of the Sharia Supervisory Board (SSB) encompass overseeing the development of new products and bank activities and ensuring strict adherence to Sharia principles. b. The SSB is empowered to request explanations from bank officials regarding upcoming products' purpose, characteristics, and contracts. It is further tasked with scrutinising new product contracts and analysing their compatibility with the national SSB fatwa. The Indonesian Ulema Council collaborates by assessing new product systems and procedures for Sharia compliance, offering opinions on products slated for launch. c. The SSB conducts analyses of directors' reports and internal audits to assess the degree of compliance with Sharia principles in transactions. The SSB determines the requisite number of transaction samples in this capacity and conducts tests, observations, and confirmations to support the examination findings. Additionally, the SSB reviews Standard Operating Procedures (SOPs) related to Sharia aspects, providing Sharia opinions and reporting supervision outcomes to the board of directors.

RESEARCH METHOD

The sample used consists of all Islamic banks operating in Indonesia in 2021. This means that the data analysed is derived from every Islamic bank in operation during that year without employing sampling techniques to select specific samples. Analysis utilising the entire population of Islamic banks as the sample, the research aims to offer a comprehensive overview of governance practices within the Indonesian Islamic banking sector for that year. The methodology employed in this study entails qualitative methods, specifically content analysis, to scrutinise the 2021 annual reports of Islamic banks. Data for analysis is extracted from the official websites of 12 selected Islamic banks, forming the sample for this research. Content analysis is employed to systematically examine and interpret the information provided in these annual reports, aiming to identify patterns, themes, and insights concerning Shariah governance practices, transparency measures, regulatory compliance, stakeholder engagement, and other pertinent aspects of governance in Islamic banks. Through a thorough review of the content presented in the annual reports, this study seeks to provide a comprehensive understanding of the governance landscape within Islamic banking institutions in 2021.

RESULTS AND DISCUSSIONS

Overview Indonesian Islamic Banks

This study analyses Islamic banks that are not included in non-window banking. There will be 12 non-window banking Islamic banks in Indonesia in 2021. The ownership structure is a part of governance associated with performance. The ownership structure of

Islamic banks in Indonesia is unique because it is more diverse. The majority shareholder in Indonesia consists of the government, and this ownership is not directly but through state-owned enterprise institutions. Bank Syariah Indonesia (BSI) is included in this category. Government ownership of BSI is through three state-owned banks: Bank Negara Indonesia (BNI), Bank Mandiri, and Bank Rakyat Indonesia (BRI). The second type of ownership is local government through investment from regionally owned enterprises. Islamic banks owned by the local government are Bank Aceh Syariah, BPD Nusa Tenggara Barat Syariah, and Bank Jabar Banten Syariah. Islamic banks owned by regional governments generally share a market in one region only. Significant foreign ownership only occurs in Bank Panin Dubai Syariah; Dubai Islamic Bank holds a share of 25.1%. There are seven privately owned Islamic banks. In addition, several Islamic banks in Indonesia have traded their shares on the stock market, including Bank Syariah Indonesia, Bank Panin Dubai Syariah, Bank Aladin Syariah, and BTPN Syariah.

Table 1. Data on the characteristics of Indonesian Islamic banks

No	Bank Name	Majority Ownership	Total Asset (in a million IDR)	Sales Growth	ROA	Leverage
1	Bank Aceh Syariah	Local government	28,170,826	2%	0.014	0.097
2	BPD Nusa Tenggara Barat Syariah	Local government	11,215,180	16%	0.012	0.870
3	Bank Muamalat Indonesia	Private	58,899,000	-12%	0.000	0.196
4	Bank Victoria Syariah	Private	1,660,849	-31%	0.003	0.778
5	Bank Jabar Banten Syariah	Local government	10,358,850	8%	0.002	0.174
6	Bank Syariah Indonesia, Tbk	Government	265,289,081	5%	0.011	0.233
7	Bank Mega Syariah	Private	14,041,751	43%	0.038	0.092
8	Bank Panin Dubai Syariah, Tbk	International private	14,426,005	2%	-0.057	0.840
9	Bank Syariah Bukopin	Private	6,220,221	-17%	-0.037	0.202
10	BCA Syariah	Private	10,642,300	0%	0.008	0.733
11	Bank Aladin Syariah, Tbk	Private	2,173,162	15%	-0.056	0.041
12	BTPN Syariah, Tbk	Private	18,543,856	17%	0.079	0.137

The following analysis is based on total assets; nationally, the total assets of Islamic banks in Indonesia in 2021 are 442 trillion rupiahs. BSI occupies the bank with the top five total assets nationally in 2021 in first place with total assets of IDR 265 trillion. BSI is the largest bank in Indonesia, with a total assets of 60% of the total assets of all Islamic commercial banks. In second place is Bank Muamalat Indonesia (BMI), with total assets of IDR 59 trillion. The third is Bank Aceh Syariah (BAS), with total assets of 28 trillion. Fourth and fifth are occupied by BTPN Syariah and Panin Dubai Syariah, with total assets of 19 trillion rupiahs and 14 trillion, respectively.

The average industry sales growth in the observation period is Islamic bank sales growth is 4%. Sales are calculated from all Islamic banks' income, fee-based income, and financing schemes. Bank Mega Syariah (BMS) holds the record with the highest sales growth of 16%. BMS experienced a surge in revenue growth but needed to be followed by comprehensive profit growth during the year. BMS reported a comprehensive profit of minus IDR 58.83 billion, a decrease of 108% from 2020. This decrease in comprehensive profit was due to unrealised losses due to fluctuations in securities, especially in the second half of 2021. BMS only experienced a momentary shock facing the Covid-19 pandemic, which impacted the decline in capital market conditions. When viewed from the net profit from operational activities, the condition of BMS experienced an increase of 308% from the previous year. BMS increased operating profit by implementing a strategy to increase financing with tighter screening supported by the low cost of funds. Furthermore, BSI, the bank with the most assets, can grow slightly above the industry average of 5%.

Characteristics Shariah Supervisory Board (SSB) Indonesian Islamic Banks

Otoritas Jasa Keuangan (OJK) requires all Sharia banks and window-baking Sharia banks to have an SSB of at least two people. Table 2 provides an overview of the SSB composition of all Islamic commercial banks in 2021. Overall, all Islamic banks in Indonesia have met the minimum standards OJK set regarding SSB ownership. The majority of Sharia commercial banks only have two SSB members. BSI, the largest bank owned by the government, recruited the most SSBs, namely four people. Furthermore, Bank Aceh Syariah (BAS) and Bank Muamalat Indonesia (BMI) have three SSB members.

Table 2. SSB Characteristic Indonesian Islamic Bank

No	Bank Name	SSB Size	SSB Cross-member	SSB Education	SSB Expertise	SSB Turnover
1	Bank Aceh Syariah	3	2	3	0	0
2	BPD Nusa Tenggara Barat Syariah	2	0	0	0	0
3	Bank Muamalat Indonesia	3	2	1	1	1
4	Bank Victoria Syariah	2	2	2	0	0
5	Bank Jabar Banten Syariah	2	1	1	2	0
6	Bank Syariah Indonesia, Tbk	4	4	4	1	0
7	Bank Mega Syariah	2	2	2	0	0
8	Bank Panin Dubai Syariah, Tbk	2	2	1	0	0
9	Bank Syariah Bukopin	2	2	1	0	0
10	BCA Syariah	2	2	1	1	0
11	Bank Aladin Syariah, Tbk	2	2	1	1	0
12	BTPN Syariah, Tbk	2	2	0	1	0

SSB cross-membership, namely SSB members serving as sharia boards of more than one institution in the same period. OJK does not prohibit SSB members from serving as SSBs at other Sharia institutions in the same period (cross-membership), a maximum of four Sharia financial institutions. Most SSBs in Indonesia are members of more than one SSB in the same period. BPD Nusa Tenggara Barat Syariah is the only SSB member who still needs cross-membership. This cross-membership will provide additional benefits to Islamic banks because there is an exchange of information between members, thereby enriching insights into decision-making (Prasojo et al., 2022b; Sueb et al., 2022). On the other hand, SSB members who hold many positions in various Islamic financial institutions need to be more focused, which can reduce the quality of shariah advisory.

SSB educational, namely the number of SSB members with doctoral degrees. According to Prasojo et al. (2022a), SSB members with doctoral degrees have higher analytical skills to improve the quality of decisions. Many Islamic banks have SSB members with doctoral degrees who are expected to contribute more significantly to the decision-making process for monitoring Sharia principles. Most of SSB's educational background in Indonesia is majoring in sharia and Islamic studies.

OJK provides a few competency requirements for SSB in Indonesia. The SSB competency requirements for Islamic banks requested by the OJK are a background in the field of sharia and general knowledge in banking or finance. Without specific regulatory requirements regarding SSB capabilities, most Islamic banks in Indonesia recruit SSB experts in the Sharia field. Based on the distribution of SSB characteristic data, it can be seen that several Islamic banks have SSB members with financial or accounting backgrounds (SSB expertise), such as BMI, Bank Jabar Banten Syariah (BJBS), BSI, BCA Syariah (BCAS), Bank Aladin Syariah (BAS), and BTPN Syariah (BTPS).

The final SSB characteristic is the member turnover over one year. Based on observations from the annual reports of each bank, SSB members remained the same during the current year (2021). The only bank that experienced a change in SSB members was BMI. BMI added SSB members in the current period, to be precise, on August 30 2021. In the previous period, the number of SSB members was only two. SSB member changes during the current period can be negatively impacted if inadequately prepared. Before ending their term of office, old and new members should coordinate ongoing and future work so that the company is not affected by the change in SSB. The new SSB should maintain communication if there are problems related to the work of the previous SSB, which can be resolved immediately.

Analysis of conformity of SSB practices with regulations in Indonesia

Implementing Shariah governance in Indonesia refers to Law No. 21 of 2008, central bank regulation no. PBI 11th/33/PBI/2009, and central bank circular no. SEBI 12th/13/DPbS/2010. We use this rule as a reference for analysing the implementation of Shariah governance in Islamic banks. The following summarises the rule points with practice in the industry.

Table 3. SSB's observation with rules

No	Bank	Criteria					Decision
		Holds SSB	Requirements	Number of meeting	Not a consultant	SSB reports	
1	Bank Aceh Syariah	Yes	Yes	Yes	Yes	Yes	Fulfil the regulations
2	BPD Nusa Tenggara Barat Syariah	Yes	Yes	Yes	Yes	Yes	Fulfil the regulations
3	Bank Muamalat Indonesia	Yes	Yes	Yes	Yes	Yes	Fulfil the regulations
4	Bank Victoria Syariah	Yes	Yes	Yes	Yes	Yes	Fulfil the regulations
5	Bank Jabar Banten Syariah	Yes	Yes	Yes	Yes	Yes	Fulfil the regulations
6	Bank Syariah Indonesia, Tbk	Yes	Yes	Yes	Yes	Yes	Fulfil the regulations
7	Bank Mega Syariah	Yes	Yes	Yes	Yes	Yes	Fulfil the regulations
8	Bank Panin Dubai Syariah, Tbk	Yes	Yes	Yes	Yes	Yes	Fulfil the regulations
9	Bank Syariah Bukopin	Yes	Yes	Yes	Yes	Yes	Fulfil the regulations
10	BCA Syariah	Yes	Yes	Yes	Yes	Yes	Fulfil the regulations
11	Bank Aladin Syariah, Tbk	Yes	Yes	Yes	Yes	Yes	Fulfil the regulations
12	BTPN Syariah, Tbk	Yes	Yes	Yes	Yes	Yes	Fulfil the regulations

Researchers analysed Sharia governance practices related to SSB in Islamic banks in Indonesia. There are four criteria summarised by regulators related to SSB. The first criterion refers to the law, which says Islamic banks must have SSB. Based on observational data from the annual report, no sharia violates this provision—the second criterion regarding requirements consists of number, criteria, and cross-membership. Islamic banks have at least two SSB members, and then Islamic banks carry out procedures in the SSB recruitment process. Prospective SSB members must pass a Sharia supervisor basic training certification from the National Sharia Council of the Indonesian Ulema Council (DSN MUI) Institute and a Sharia supervisor competency certificate held by the MUI certification agency.

Furthermore, prospective SSB members submit a letter of recommendation from the MUI. Prospective members will go through the interview stage with the MUI. If they pass, the MUI will provide a letter of recommendation to become an SSB. The next step is for the bank to send approval to Bank Indonesia. SSB members will be given approval depending on the results of interviews with Bank Indonesia. An SSB member is legally allowed to serve as a member of the SSB for a maximum of four Islamic financial institutions simultaneously. Islamic banks have disclosed SSB members who serve in more than one institution in their annual reports.

The third criterion is the number of meetings. OJK provides rules that SSB members must hold a meeting at least once a month. The bank has disclosed the number of SSB meetings in its annual report. The entire sample reported the number of SSB meetings; no violations were found in this rule. The fourth criterion, OJK, prohibits SSB members from becoming consultants at Islamic banks while in office. This prohibition is intended to avoid conflicts of interest and illegal exchange of information between Islamic banks. SSB members who are not consultants to other Islamic banks will be more independent and professional in their supervision.

The fifth criterion, SSB submits a report on supervision results to the DSN MUI and publishes it in its annual report. The SSB report generally contains the results of the supervision of Sharia compliance from January 1 to December 31 each year. The SSB report at least states that the operations of Islamic banks are in or not under Islamic values and principles.

SSB practice in Indonesia from the perspective of AAOIFI

AAOIFI requires that at least Islamic banks have three SSB members (Prasojo et al., 2022b). In general, SSBs owned by Islamic banks in Indonesia do not meet the AAOIFI qualifications. Only three Islamic banks meet the AAOIFI requirements: BAS, BJBS, and BSI. Three SSB members are ideal if there are diverse backgrounds, for example, financial, fiqh, and accounting experts. SSB should not only issue fatwas on sharia but be involved in shariah audits and in developing new products related to shariah compliance risk.

The function of SSB in Indonesia is different compared to other countries. SSB in Indonesia is more focused on Sharia advice than supervision. In practice, most SSBs in Indonesia have a background in fiqh experts. The SSB certification exam places more emphasis on fiqh analysis skills than the others. If there are members of the SSB with a financial or accounting background, they usually have a good understanding and deep understanding of fiqh material. These members usually study religion at Islamic boarding schools and, at the same time, pursue higher education, majoring in finance or accounting.

CONCLUSION AND RECOMMENDATION

The examination of Sharia governance in 12 Indonesian Islamic banks for the year 2021 centres on the Sharia Supervisory Board (SSB). Results indicate adherence to regulatory-defined SSB criteria, encompassing elements like SSB establishment, prerequisites, meeting frequency, non-consultation, and reporting. Given the prevailing low public trust in Indonesian Islamic banks, a proficiently operating SSB is pivotal, potentially elevating confidence in Islamic bank products. Disparities between Indonesian regulations and AAOIFI standards, particularly concerning the minimum SSB member count, affect the diversity of SSB characteristics.

This research significantly contributes to the sharia governance literature by delineating the SSB characteristics of each Islamic bank in Indonesia. Regulators can leverage these insights to shape more diverse SSB compositions, drawing reference from AAOIFI standards. It is crucial to acknowledge the study's limitations, confined to the Indonesian context and AAOIFI standards, without presenting specific compliance percentages for each SSB criterion. Subsequent research avenues may explore cross-country comparisons, such as examining SSB practices in Indonesia and Malaysia, the latter having an established Sharia governance framework.

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