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Implementation of the Policy to Strengthen the Role of the Sharia Supervisory Board at the Financial Services Authority on Governance of Sharia Rural Banks

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Abstract: In order to strengthen the function of the Sharia Supervisory Board (DPS) in the governance of Sharia Rural Banks (BPR Syariah), this study intends to examine how Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (UU P2SK) is being implemented. By looking at rules and interviewing stakeholders at the Financial Services Authority (OJK) and other organizations, the study employs a qualitative-descriptive methodology. The findings indicate that DPS's authority and responsibility are increased by the UU P2SK, which puts them on level with directors and commissioners. This is further detailed in POJK No. 25 of 2024 concerning Sharia Governance in BPR Syariah. Challenges identified include limited DPS competence, multiple positions, and low remuneration. According to the study's findings, enhancing DPS governance can boost public confidence in Islamic financial institutions and sharia compliance.

Keywords: Sharia Supervisory Board, governance, BPR Syariah, DPS regulation, UU P2SK.

INTRODUCTION

Conventional and Islamic banks are intermediate organizations that, by collecting and allocating cash, are essential to fostering national economic prosperity. As a crucial part of financial services, the banking industry needs to put solid governance procedures in place, such as compliance, internal and external audits, and efficient risk management systems. Islamic banking incorporates commitment to Islamic beliefs and practices as a core business identity, extending governance beyond traditional corporate governance norms (Sulub, 2020).

The five pillars of good governance in Islamic banks are openness, accountability, responsibility, independence, and fairness, according to Faozan (2013). Ensuring that all

banking operations adhere to Islamic legal and ethical norms is a major responsibility of the Sharia Supervisory Board, also known as Dewan Pengawas Syariah, or DPS. However, a number of flaws in DPS performance have frequently been pointed up. These include the members' symbolic appointment, their lack of Islamic finance-specific qualifications, the conflict of interest resulting from bank-paid compensation, and their numerous appointments across financial institutions, all of which diminish their efficacy and neutrality (Sutedi, 2011).

The DPS is an essential part of Islamic financial organizations from a legal standpoint. In order to carry out fatwas and supervise their implementation inside bank operations, it functions as an extension of the National Sharia Council (Dewan Syariah Nasional, or DSN). Positioned at the same organizational level as the board of commissioners, DPS's duties include overseeing products, ensuring ethical conformity, keeping an eye out for possible Sharia infractions, and hiring staff in accordance with Islamic principles. However, research indicates that at many Islamic banks, DPS's functional role is still subpar or, in certain situations, nonexistent (Ilyas, 2021).

Law Number 4 of 2023 on the Development and Strengthening of the Financial Sector (Undang-Undang Pengembangan dan Penguatan Sektor Keuangan – UU P2SK) was passed by the Indonesian government in response to these issues. This law designates DPS members as associated parties, with the same status as members of the board of directors and board of commissioners, in an effort to bring Sharia banks' governance structures into line with the quickly changing financial sector. However, there hasn't been any explicit regulatory guidance for DPS's organizational structure, tasks, responsibilities, or compensation procedures to go along with this change in legal status.

Regulation Number 25 of 2024 about the Implementation of Sharia Governance in Sharia Rural Banks (POJK Takel Syariah BPR Syariah) was issued by the Financial Services Authority (Otoritas Jasa Keuangan, or OJK) in order to carry out the law. Limits on multiple appointments, revised guidelines for DPS appointment approval, and a pay scale that takes into account the growing complexity and responsibility of DPS positions are all outlined in this regulation. By implementing these measures, DPS will be better equipped to monitor and enforce Sharia compliance with greater independence and professionalism.

In 2022, the Guiding Principles on Shariah Governance Systems for Institutions Offering Islamic Financial Services were released globally by the Islamic Financial Services Board (IFSB). The Sharia Supervisory Board, the Sharia compliance unit, and the Sharia audit function are the three main elements of Shariah governance frameworks that are described in this publication (IFSB, 2022). To increase the legitimacy and responsibility of Islamic financial institutions, these concepts must be included into national rules.

Several obstacles still stand in the way of establishing Sharia governance at the institutional level, even with regulatory advancements. The lack of qualified DPS personnel, especially in remote locations, is a major problem. One major impediment is low pay, which lessens incentives for competent people to work for the DPS. By the end of 2023, Indonesia had 173 Sharia rural banks (BPR Syariah) and 1,402 conventional rural banks, according to OJK's banking data. Many of these did not fulfill the minimum DPS membership criterion, and some did not have DPS at all, particularly in institutions with low capital.

The POJK Takel Syariah Stricter guidelines for dual appointments are introduced by BPR Syariah. Members of the DPS were previously permitted to work for up to four Islamic financial firms. DPS members are only permitted to work for two more Islamic financial organizations and one more BPR Syariah under the new rule. Only when the extra roles don't interfere with their main duties are exceptions granted. These changes aim to reduce conflicts of interest and improve the quality of Sharia supervision.

The regulation also addresses DPS's reorganization as an official organizational part of the bank, bringing them into line with directors and commissioners. This action makes it

possible for DPS members to pass a suitable test and be paid similarly to other board members. Additionally, it creates DPS accountability in strategic processes like risk assessment, business plan development, and Sharia financial education for the general public.

The rule also emphasizes how important compensation is. Many DPS employees currently earn pay that is out of proportion to their duties, particularly in smaller banks. Insufficient compensation deters skilled workers from taking on these positions, which adds to the dearth of capable Sharia oversight in local financial institutions. Therefore, increasing DPS pay is viewed as a tactic to draw and keep qualified workers in the Sharia finance industry in addition to being a question of justice.

In conclusion, the Indonesian government and OJK have made substantial steps to strengthen Sharia governance in Islamic banking with the redefining of DPS roles and status in UU P2SK and the following implementation of regulation POJK Takel Syariah BPR Syariah. By implementing these changes, DPS will be able to protect public confidence and adhere to Islamic financial principles while operating as an independent and efficient regulatory agency. Public support, institutional dedication, and persistent regulatory enforcement are necessary for this project to succeed.

METHODS

Using a qualitative descriptive approach, this study investigates how Law Number 4 of 2023 about the Development and Strengthening of the Financial Sector (UU P2SK) is being applied, with an emphasis on bolstering the Sharia Supervisory Board (DPS) in the governance of Sharia Rural Banks. In-depth social phenomena, particularly policy processes, stakeholder interactions, and contextual dynamics, are well-suited for qualitative research (Moleong, 2007; Saleha Mufida, Timur, & Waluyo, 2023). This method is also thought to be suitable for examining stakeholder behavior and institutional readiness in the execution of policies (Grindle, 2011; Hidayat, Nurhasanah, & Abdullah, 2022).

Those actively involved in the planning, regulating, implementing, and overseeing of Islamic financial institutions are among the research topics. These include OJK executives, DPS members, Asbisindo, DSN-MUI representatives, BPR Syariah commissioners and directors, and regulatory specialists. Purposive sampling, a method frequently employed to find people with particular information pertinent to the subject, was utilized to choose informants (Sugiyono, 2007).

The OJK office in Jakarta was selected for the study because of its crucial role in regulating Sharia finance and the availability of qualified informants. Data was gathered by combining fieldwork and library research. As part of the library study, laws, scholarly works, journal articles, policy reports, and official regulatory papers pertaining to Sharia governance and DPS functions were reviewed (Nurbantoro, 2021).

Direct observations and semi-structured interviews were used in the fieldwork to gather detailed, contextual information from important stakeholders (Bogdan & Taylor in Moleong, 2007; Diatmono, Mariam, & Ramli, 2023). Open-ended questions from an interview guide were used to cover subjects such the DPS's role, the legislative changes brought about by UU P2SK, institutional difficulties, and preparedness perceptions. According to Spradley in Sugiyono (2007), semi-structured interviews are very good at eliciting thorough explanations while preserving thematic emphasis.

Qualitative content analysis is the data analysis technique employed. The analysis includes data coding, topic categorization, interpretation, and synthesis in order to produce meaningful results. To increase the validity and credibility of the results, the study also used triangulation, which compares data from several informants and sources (Grindle, 2011; Nefianto, 2023).

Qualitative content analysis was used to analyze the data. To find themes, this involved coding, classifying, analyzing, and combining data. By comparing data from several sources and informants, the study used triangulation to increase validity and credibility (Grindle, 2011; Nefianto, 2023).

RESULTS AND DISCUSSION

Repositioning of the Sharia Supervisory Board (DPS) in the Governance Structure

The issuance of Law No. 4 of 2023 (UU P2SK) marks a significant reform in the structure of financial governance in Indonesia. One of the central changes introduced is the redefinition of the status of the Sharia Supervisory Board (DPS). Under the new framework, DPS is no longer perceived as merely an external religious authority but is now classified as a party affiliated with the bank, equal in status to the board of directors and commissioners. This transformation is legally binding and reflects a strategic elevation of DPS's role in institutional governance.

With this new role, DPS's role is no longer seen as passive religious supervision but rather as active strategic engagement. The rule gives the board a chance to actively influence corporate choices, particularly those pertaining to Sharia compliance, by acknowledging DPS as a primary organ of governance. The institutionalization of Sharia governance as a crucial component of corporate governance at BPR Syariah is strengthened by this statutory shift.

Additionally, the change calls for a more stringent selection procedure. In contrast to the former system, which relied mostly on recommendations from the National Sharia Council (DSN-MUI), DPS members are now required to complete a Fit and Proper Test (PKK) administered directly by the Financial Services Authority (OJK). This guarantees that DPS employees comprehend the fundamentals of risk, finance, and organizational administration in addition to their religious understanding.

Sharia supervisory responsibilities are evolving toward more professional and institutionally anchored functions, which is in line with worldwide trends in Islamic finance. The IFSB-AAOIFI Shariah Governance Framework (2023) states that empowered, autonomous, and knowledgeable Sharia supervisory boards that are actively involved in risk management and policy creation are necessary for an efficient Sharia governance system.

Long Standing worries regarding the symbolic character of DPS's oversight are also addressed by the agency's repositioning. It is anticipated that DPS's presence would have a genuine impact as they have been granted official authority and incorporated into the bank's organizational framework. Now, their choices and viewpoints have to be formally documented and considered in management discussions and reporting.

The modifications are theoretically consistent with the Edward III implementation model, especially when it comes to organizational structure and communication. Role description clarity and DPS's official incorporation into the governance framework eliminate implementation uncertainty and offer a strong basis for efficient supervision (Edward, 1980 in Karla, 2021).

Restrictions on Multiple Appointments and Conflict of Interest

The prohibition of DPS members holding dual posts at other financial institutions is one of the most significant clauses in POJK No. 25 of 2024. In the past, a single DPS employee may work for up to four distinct Sharia-compliant financial organizations, which frequently resulted in overwork and lower-quality supervision. This is greatly diminished by the new rule, which states that a DPS member is only permitted to work for two further Islamic financial organizations and one other BPR Syariah.

In order to avoid conflicts of interest and improve DPS members' concentration and performance in their jobs, this rule was put into place. DPS members should be able to devote

more time and focus to their duties as a result of having fewer concurrent appointments, which should enhance the standard of Sharia compliance monitoring.

However, there are a number of obstacles to field deployment. BPR Syariah institutions are having trouble obtaining qualified DPS members in many rural and underdeveloped locations. Compliance is hampered by the small number of professionals who are both financially literate and knowledgeable with Sharia, particularly outside of large cities. Numerous universities are compelled to vie for the same limited number of DPS applicants.

Furthermore, little BPR Syariah has limited financial resources to recruit DPS members. Qualified professionals are discouraged from accepting DPS posts in smaller universities due to geographical isolation, hard workloads, and lower compensation offers. This makes following the dual-role limitation even more difficult.

As noted by Grindle (2011), this illustrates a misalignment between the environment of implementation and the design of policies from the standpoint of implementation theory. The goal of the policy may be obvious and logical, but there are gaps between expectations and actual implementation because of field realities like scarce resources and human capital.

Notwithstanding these problems, the ban on dual duties is still a must for improved Sharia government. Supporting the policy's execution with sufficient talent development programs, regional training, and financial incentives to make DPS employment more appealing and accessible in underserved areas presents a greater challenge than the policy's fundamentals.

Inadequate Remuneration as a Barrier to Effective Supervision

In any company, including DPS, compensation has a significant impact on the caliber of human resources. Despite having comparable degrees of responsibility, research shows that DPS members in many BPR Syariah institutions, especially those in rural areas, are paid much less than directors and commissioners. This disparity undermines the motivation and performance of DPS members.

DPS employees who receive low pay frequently look for supplementary positions at other organizations to augment their income. This limits their capacity to concentrate and devote enough time to a single institution, in addition to adding to the problem of dual jobs. As a result, their oversight's efficacy is undermined, and the integrity of Sharia compliance procedures is weakened.

POJK No. 25 of 2024 acknowledges this problem and stipulates that DPS compensation must be commensurate with the size and complexity of the organization's activities. This clause seeks to maintain equity and promote the hiring and retention of top-tier experts. However, because of their tight budgets, many BPR Syariah institutions still find it difficult to achieve these financial demands.

Interviews with regulators and bank executives show that although the regulation is in place, there are differences in how it is enforced. Due to a lack of set benchmarks or management's reluctance to provide more funding, DPS compensation has frequently not been changed. This discrepancy causes a void between the creation of policies and their actual implementation.

The "resources" element in Edward III's paradigm, which highlights the significance of human and financial capital for effective policy execution, is also touched upon by this issue. Even the most well-designed plans may not work in practice if there are insufficient resources (Edward, 1980; Karla, 2021).

A national standard or guideline that offers a compensation mechanism for DPS is required to close this gap, particularly for smaller schools. Potential remedies can include pooled DPS plans for regional institutions, cross-subsidization approaches, or subsidies.

Increased Operational Role and Institutional Responsibilities

Along with structural adjustments, the new regulatory framework has resulted in a major expansion of the duties assigned to DPS. DPS is now required to actively participate in BPR Syariah's internal operations, especially when it comes to evaluating new products, keeping an eye on compliance procedures, and taking part in strategic decision-making. These tasks go beyond their traditional advisory function and place them at the heart of Sharia governance.

DPS members are now required to attend board meetings, review business plans (RBB), and offer written opinions on Sharia compliance matters. These opinions must be formally documented and integrated into the bank's policy-making processes. This provides a level of transparency and accountability that was previously lacking.

Additionally, the rule mandates that DPS work with other governance institutions, including compliance departments and internal audits. By integrating Sharia monitoring into the institution's larger risk and control architecture, it is ensured that it is not isolated. In contemporary government, where interdepartmental collaboration is essential to operational effectiveness, this kind of alignment is vital.

These modifications adhere to global best practices. For example, Sharia supervisory boards must participate in risk assessments, product development, and audit reviews in addition to issuing religious rulings, according to the IFSB-AAOIFI Shariah Governance Framework (2023). Indonesia is bringing its governance model into line with international norms by formally defining these responsibilities.

Despite these improvements, several institutions say they are having trouble coping with DPS's increased demands and workload. Not all DPS employees have the operational, financial, or legal know-how to carry out these more comprehensive responsibilities, particularly in rural locations with limited chances for professional growth.

Academic institutions and regulatory agencies must collaborate to offer DPS training and certification programs in order to address this. In order for DPS to carry out their duties in a complicated financial context, these programs ought to address both Sharia and banking competencies.

Institutional Challenges in Compliance with DPS Structure Requirements

Academic institutions and regulatory agencies must collaborate to offer DPS training and certification programs in order to address this. In order for DPS to carry out their duties in a complicated financial context, these programs ought to address both Sharia and banking competencies.

Fifteen of the 47 BPR Syariah institutions with core capital under IDR 6 billion did not meet the structural DPS criteria. Due to restricted availability to skilled DPS professionals, these gaps are primarily seen in BPR Syariah, which is situated in rural and semi-urban areas. An imbalance between regional institutional capability and regulatory demands is shown in this pattern.

Lack of local institutional support, high operating costs, and a lack of talent are the main reasons for this non-compliance. The management of BPR Syariah frequently indicates a desire to comply but lacks the resources and infrastructure necessary to do so. Progress is further hampered by the lack of government assistance or capacity-building initiatives.

This situation demonstrates that policy implementation is not solely dependent on regulations but also on institutional readiness. As suggested by Grindle (2011), effective policy implementation requires not only sound content but also a conducive context, including political will, financial resources, and organizational capability.

These institutional flaws could erode public confidence in the Islamic banking sector as a whole if they are not fixed. Sharia compliance is a fundamental value proposition for Islamic financial organizations in addition to being required by law. Applying governance rules inconsistently could damage credibility and put one's reputation at danger.

Policymakers need to take a more flexible and encouraging stance going forward. For smaller BPR Syariah, this entails providing incentives, technical support, and streamlined compliance approaches. Full implementation of the DPS governance reforms might not become a reality without such backing.

CONCLUSION

This study comes to the conclusion that the Sharia Supervisory Board's (DPS) institutional and legal framework within the governance of Sharia Rural Banks (BPR Syariah) has undergone significant change as a result of the enactment of Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (UU P2SK) and the publication of POJK Number 25 of 2024. A change in national regulatory commitment to bolster internal Sharia governance is seen in the DPS's promotion from an external oversight body to an affiliated party on par with the board of directors and commissioners. This change is consistent with the study's goal of determining how much regulatory modifications have affected DPS's operational role and authority in real-world situations.

Although most institutions formally adopted structural modifications, the survey discovered that actual implementation varied widely. The DPS function is now more closely linked to risk assessment, compliance monitoring, and strategic planning in metropolitan or better-capitalized BPR Syariah. However, a lack of human resources, ambiguous position definitions, and ineffective enforcement mechanisms made implementation difficult in smaller or rural institutions. This difference demonstrates how crucial institutional capability is to the operational interpretation and implementation of national policies.

Furthermore, due to oversight inadequacies and a shortage of skilled staff, the quest for greater professional independence among DPS members and prohibitions on dual appointments were only partially successful. Similar to this, institutional motivation to fully support the function has been weakened by the lack of consistent compensation, even though DPS responsibilities have grown in complexity and scope. These real-world results offer concise responses to the study questions about the difficulties and efficacy of putting DPS policy into practice as required by UU P2SK.

From the standpoint of scientific and regulatory governance, this study advances our knowledge of how legal tools might change the institutional functions that institutions play in Islamic financial systems. It sheds light on the relationship between institutional preparedness and regulatory intent, especially when it comes to integrating Sharia principles with contemporary financial governance systems. The report also emphasizes how crucial it is to implement policies, since success hinges on institutional infrastructure, talent development, and compliance culture in addition to regulations.

The findings highlight the need for both strategic alignment with operational practices and legal reforms in order to improve regulatory bodies like DPS in the context of public administration and industrial governance. This reaffirms the need for procedures that guarantee accountability, consistency, and the growth of professional capability inside regulated companies in order to support the implementation of policies. Therefore, this study contributes to the larger field of institutional governance in Islamic banking in addition to addressing the particular example of DPS inside the OJK framework.

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