International Journal of Information System and Innovation Management

Volume 2 Issue 1 June 2024
Page : 16-26

Strategic Innovation in Sharia Governance: The Evolving Management Role of the Sharia Supervisory Board

Septy Rahma Dwi[1], Febria Lesmita[2], Suzana[3*], Muhammad Albahi[4], Siti Intan Nurdiana Wong Abdullah[5], Silvia Sari Sitompul[6]
Universitas Islam Negeri Sultan Syarif Kasim Riau[1,2,3,4]
Nottingham Trent University, United Kingdom[5]
Institut Bisnis dan Teknologi Pelita Indonesia[6]
Septyrahmadwi4@gmail.com[1], febrialesmitasari@gmail.com[2], ana.rypku@gmail.com3, muhammadalbahi@yahoo.co.id[4], sitiintan.abdullah@newinti.edu.my[6], silviasari.sitompul@lecturer.pelitaindonesia.ac.id[6]

Submitted: 8 June 2024, Accepted:28 June 2024, Published: 10 July 2024

ABSTRACT
The Shariah Supervisory Board (DPS) plays a vital role in ensuring that the operations and financial products of Islamic financial institutions comply with Shariah principles. This research aims to explore the roles, responsibilities, and challenges faced by DPS through analyzing the available literature. Through the literature study method, this research analyzes various secondary sources, including scientific articles, books, regulations, and reports from Islamic financial institutions. The results show that DPS has a key role in providing trust to stakeholders, but also faces various challenges, such as the lack of uniform global standards and limited resources. This study provides recommendations to strengthen the role of DPS, including improved training and education of DPS members, as well as harmonization of regulations at the international level. Thus, DPS can be more effective in supporting the sustainable growth of the Islamic finance industry in accordance with Islamic principles.

Keywords : *Sharia Supervisory Board, Sharia Supervision*

1. Introduction

The landscape of Islamic banking has evolved significantly over recent decades, driven by the need to align financial operations with Sharia principles while navigating a complex global financial environment. At the heart of this alignment is the Sharia Supervisory Board (DPS), a crucial institution responsible for ensuring that the activities and products of Islamic financial institutions adhere to Islamic law. The role of the DPS is fundamental in maintaining the credibility and trustworthiness of these institutions, which is vital for both regulatory compliance and public confidence (Jaih Mubarok, 2004).

In Indonesia, the National Sharia Council (DSN), established by the Indonesian Ulema Council (MUI), plays a pivotal role in enhancing the governance of Islamic financial institutions. The DSN's establishment reflects a strategic effort to ensure that Islamic financial practices are aligned with Sharia principles and to provide guidance on the application of these principles in response to evolving economic and financial challenges (Briefcase Book, 2005). The council's proactive approach aims to facilitate the integration of Islamic teachings into modern financial practices, addressing the dynamic needs of the financial sector.

Despite these advancements, there is a notable gap in understanding how the Sharia Supervisory Board manages innovation while ensuring Sharia compliance. Previous research has extensively examined the importance of Sharia governance in maintaining the operational integrity of Islamic financial institutions (Grassa, 2013; Mollah & Zaman, 2015). Studies by Alam and Nizam (2020) and Azad and Ibrahim (2019) have explored various aspects of Sharia governance and market structures within Islamic finance, providing valuable insights into these domains.

However, the integration of innovation management within the framework of Sharia compliance has not been thoroughly investigated. Existing literature often focuses on traditional aspects of Sharia governance and financial performance, with limited attention given to how innovation can be effectively managed within these constraints (Bakar & Yusoff, 2016; Khan & Bhatti, 2008). This gap highlights the need for a more comprehensive study that explores how Sharia Supervisory Boards address the challenges of incorporating innovative practices while adhering to Islamic principles.

The novelty of this research lies in its exploration of the intersection between Sharia compliance and innovation management. By examining how the DPS navigates the implementation of innovative financial products and technologies within the confines of Sharia law, this study aims to contribute new insights into the operational effectiveness and strategic management of Islamic financial institutions. This approach will not only enhance academic understanding but also offer practical implications for managing innovation in compliance with Sharia principles.

This research will address the existing gap in the literature by focusing on how the Sharia Supervisory Board manages the integration of innovation within Islamic financial institutions. It will assess the current practices, challenges, and strategies employed by the DPS in balancing the need for innovation with the requirements of Sharia compliance. The study aims to identify best practices and provide recommendations for enhancing the effectiveness of Sharia governance in managing innovation.

The primary objective of this research is to explore the mechanisms through which the Sharia Supervisory Board manages innovation while ensuring adherence to Sharia principles. This involves a detailed analysis of how Islamic financial institutions incorporate new financial products and technologies without compromising their Sharia compliance. The study will also investigate the role of the DSN in facilitating this process and ensuring that innovations align with Islamic teachings.

Furthermore, the research will examine the impact of innovation on the operational effectiveness of Islamic financial institutions and their ability to meet the needs of a modern financial landscape. By providing a comprehensive analysis of these aspects, the study aims to offer valuable insights for both scholars and practitioners in the field of Islamic finance.

Ultimately, this research aims to contribute to the development of more effective governance frameworks that balance the need for innovation with the requirements of Sharia compliance. The findings will support the evolution of Sharia governance practices, helping Islamic financial institutions navigate the complexities of integrating innovation while maintaining their adherence to Islamic principles. This study will provide a foundation for future research and practical applications in the management of Sharia-compliant innovations within the financial sector.

2. Literature Review

Sharia Supervisory Board

In the Indonesian dictionary, the word "council" is a body consisting of several people whose work is to decide something by deliberating, supervisor comes from the word awas which means supervisor. While "sharia" is a component of Islamic teachings that regulates the life of a Muslim both in the field of worship (habluminallah) and in the field of muamalah (hablumminannas) which is the actualization of the creed that becomes his belief. While muamalah itself covers various fields of life, among others, those concerning economics or property and commerce are called muamalah maliyah DSN (Hasan & Dridi 2011).

The Sharia Supervisory Board (DPS) is a board established to oversee the operations of Islamic banks so as not to violate sharia principles or always in accordance with the principles of muamalah in Islam. The responsibilities of this board include overseeing: First, the products and services that the bank offers to customers. Second, the investments or projects with which the bank cooperates are permitted by sharia. Third, the management of the bank itself, which must be based on sharia principles (Khan & Azad 2021).

Shariah supervision

To ensure Islamic finance, all over the world, Sharia Councils are formed that are responsible and directly supervise the financial practices implemented by Islamic financial institutions so that they do not violate the principles of sharia. In Indonesia, this role is carried out by the National Sharia Council (DSN) which was formed by the Indonesian Ulema Council (MUI) in 1998 and confirmed by the Decree of the MUI Leadership Council No. Kep-754/MUI/II/1999 dated February 10, 1999 (Khan & Azad 2021). The institution that has the authority to supervise sharia compliance in Indonesia's sharia banking legal system is the Sharia Supervisory Board (DPS). The main task of DPS is to supervise the implementation of bank operations and products so that they do not deviate from sharia rules. DPS is a board that supervises the implementation of sharia principles in Islamic financial institutions. To carry out its role, DPS only has integral scientific qualifications, namely Islamic law and modern Islamic financial economics (Grassa 2013).

Islamic banking supervision basically has two systems, namely as supervision of financial aspects, compliance with banking in general and the prudential principles of banks and supervision of sharia principles in bank operational activities. While specifically, supervision of Islamic Banks will be effective if it meets the principles of supervision itself, namely: First; objectively, supervision of Islamic Banks must be carried out objectively based on authentic and rational evidence, revealing facts relevant to the implementation, the work avoids subjective or partial prejudice without valid evidence and data. Second; independent, supervision of Islamic Banks must be independent, namely in the process and practice of supervision there should be no favoritism or other influences caused by the existence of relatives, friends, relatives, position status and others. systemic, namely the supervisory activities of Islamic Banks must implement a management system, namely the existence of planning, organizing, implementing and supervising. In addition, supervision must carry out effective planning, then how to organize and carry out the supervisory planning. In the final stage, the supervision must also be monitored whether it has been carried out objectively and independently. Then the fourth is Corrective, namely supervision of Islamic Banks must be able to provide benefits to the Islamic Bank, ensuring corrective action in carrying out management duties and functions, in addition to the smooth running of other supporting aspects. It is important to emphasize that corrective supervision of Islamic banks is certainly related to the purpose of sharia itself which is not only beneficial to the Islamic bank itself but is generally beneficial, namely mashlahat for the people. Because knowledge of Islamic business philosophy itself can help Islamic economic actors in Muslim business culture (Mollah & Zaman 2015).

The concept of supervision of financial practices carried out at Islamic financial institutions has a number of foundations, namely the sharia foundation and the positive legal basis applicable in Indonesia. One of the sharia foundations in terms of supervision, as stated in QS. Ali Imron: 104 and QS. Fushilat: 33

وَلۡتَكُن مِّنكُمۡ أُمَّةٞ يَدۡعُونَ إِلَى ٱلۡخَيۡرِ وَيَأۡمُرُونَ بِٱلۡمَعۡرُوفِ وَيَنۡهَوۡنَ عَنِ ٱلۡمُنكَرِۚ وَأُوْلَٰٓئِكَ هُمُ ٱلۡمُفۡلِحُونَ ١٠٤

Meaning: "*And let there be among you a group of people who invite (people) to goodness, call to the ma'ruf and prevent the evil, and they are the lucky ones*." (QS. Ali Imron: 104)

تَدۡعُونَ نُزُلٗا قَوۡلٗا مِّمَّن دَعَآ إِلَى ٱللَّهِ وَعَمِلَ صَٰلِحٗا وَقَالَ إِنَّنِي مِنَ ٱلۡمُسۡلِمِينَ ٣٣

Meaning: "*And who has better words than one who calls people to Allah and does righteous deeds and says: "I am one of those who surrender*." (QS. Fushilat: 33).

The meaning of these two verses is enough to represent as a sharia foundation, that the importance of supervision, evaluation and reminding each other in terms of goodness. The positive legal basis regarding supervision is found in Law No.10 of 1998 concerning Banking article 29 paragraph 1 which reads "Guidance and supervision of banks is carried out by Bank Indonesia". Supervision conducted by Bank Indonesia applies to conventional banks and Islamic banks.(Aulia Putri Oktaviani Justri, Nida Faradila, Nur Hidayah Fitriani & Zakia Mardhotillah, 2020)

Legal Basis for the Sharia Supervisory Board

The legal basis according to Bank Indonesia Regulations are: first, Bank Indonesia Regulation (PBI) No. 6/17/PBI/2004 dated July 1, 2004 concerning Rural Banks based on Sharia Principles. Second, Bank Indonesia Regulation No.6/24/PBI/2004 dated October 14 concerning Commercial Banks conducting business activities based on Sharia Principles which was later amended by Bank Indonesia Regulation No.7/35/PBI/2005 dated September 29, 2005 concerning Commercial Banks conducting business activities based on Sharia Principles. Third, Bank Indonesia Regulation No.8/3/PBI/2006 dated January 30th regarding the change of business activities of Conventional Commercial Banks into Commercial Banks that carry out business activities based on Sharia Principles and the Opening of Bank Offices that carry out business activities based on Sharia Principles by Conventional Commercial Banks.

All of these Bank Indonesia Regulations (PBI) require that every Islamic Bank must have a Sharia Supervisory Board (DPS).

Duties and Functions of the Sharia Supervisory Board

Regarding the duties, powers, and responsibilities of the DPS according to the provisions of article 27 of PBI No. 6/24/PBI/2004 of bank indonesia regulations are as follows (Wirdyaningsih, 2005): Ensure and supervise the suitability of the bank's operational activities to the fatwa issued by the DSN, Assess the sharia aspects of operational guidelines, and products issued by the bank, Provide opinions from sharia aspects on the implementation of the bank's overall operations and bank publication reports, and Submit sharia supervision reports at least every 6 (six) months to the board of directors, commissioners, the National Sharia Council and Bank Indonesia.

In conducting its supervision, each member of the sharia supervisory board must have integral scientific qualifications, namely the science of muamalah fiqh and modern Islamic financial economics. The big mistake today is that the appointment of DPS is only seen from its charisma and popularity in the community, not because of its knowledge in the field of sharia economics and banking. There are still many DPS members who do not understand the technicalities of banking and LKS, let alone Islamic financial economics, such as accounting, as a result supervision and other strategic roles are not optimal. DPS must also understand the science related to Islamic banking such as monetary economics, for example the impact of interest on investment, production, unemployment. By understanding this, there will be no more scholars who equate the murabahah sale and purchase margin with interest. But in fact, there are still many scholars who cannot distinguish murabahah margins from interest, due to the lack of knowledge they have. Because the appointment of DPS is not based on their knowledge, it is certain that the DPS supervisory function is not optimal, as a result deviations and sharia practices are possible and often occur.

The sharia supervisory board at each financial institution has the main tasks, namely: First, to provide advice and suggestions to the board of directors, head of the sharia business unit and head of the branch office of the sharia financial institution on matters relating to sharia aspects. Second, to supervise, both actively and passively, especially in the implementation of DSN fatwas and provide direction/supervision on products/services and business activities to be in accordance with sharia principles. Third, as a mediator between Islamic financial institutions and DSN in communicating proposals and suggestions for the development of products and services from Islamic financial institutions that require review and fatwa from DSN (Hasan & Dridi 2011).

Function of the Sharia Supervisory Board

DPS functions as a representative of DSN placed in Islamic financial institutions must: first, follow DSN fatwas. Second, formulate issues that require DSN ratification. Third, report the business activities and development of the Islamic financial institutions that it supervises to DSN at least once a year (Srairi 2009).

In addition, the main functions of the sharia supervisory board are: First, as a mediator between Islamic financial institutions and the national sharia council in communicating proposals and suggestions for the development of products and services from Islamic financial institutions that require a study and fatwa from the national sharia council (DSN). Second, DPS conducts periodic supervision of Islamic financial institutions under its supervision. Third, DPS is obliged to submit proposals for the development of Islamic financial institutions to the leadership of the institution concerned and to the DSN. Fourth, DPS formulates issues that require DSN discussion. To perform these supervisory functions, DPS members must have integral scientific qualifications, namely the science of muamalat fiqh and modern Islamic financial economics, not because of their charisma and popularity in the community. If the appointment of DPS is not based on its knowledge, then the DPS supervisory function will not be effective so that it can lead to irregularities in sharia practices (Wirdyaningsih, 2005)

DPS Based on AAOIFI

The Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) has prepared standards for Shariah supervisory boards, their composition, and related aspects such as regulations, reports and so on. According to these standards, the Shariah board should be an independent board consisting of many fuqaha related to Islamic commercial law. It may also comprise other experts in the field of Islamic financial institutions with knowledge of Islamic jurisprudence relating to commercial transactions. The sharia board is entrusted with the task of directing, reviewing and supervising the activities of Islamic financial institutions to ensure that they comply with Islamic sharia rules and principles. The fatwas and regulations of the sharia supervisory board are binding on Islamic financial institutions. According to AAOIFI standards, the shariah board should consist of at least three shariah scholar members. It can seek the services of consultants who have expertise in business, economics, law, accounting or other fields. And it should not include directors or significant shareholders of the Islamic financial institution.

The shariah board should only focus on the shariah compliance of the financial structure, including products, documentation, and transaction processes. Where appropriate, the report of the board should include a clear statement that the financial statements have been examined for compliance with the Shariah basis of profit allocation among equity holders and depositors. The shariah board's report should also include a clear statement that all income earned from sources or through means prohibited by Islamic shariah rules and principles has been given to charity. In case of violation of any of the shariah rules and regulations of the shariah board, the board should indicate the violation in the report.

AAOIFI has also issued standards on sharia review by the sharia board (governance standard No. 2) and internal sharia review (governance standard N. 3) by the internal audit department of the respective banks. Shariah review is usually carried out in the following stages:1) Planning of review procedures 2) Execution of review procedures and preparation of working documents, 3) Documentation of conclusions and reports.

An internal sharia review should be conducted to check and evaluate the extent of compliance with sharia regulations from the perspective of the guidelines provided by the sharia supervisor (Ayub, 2009)

3. Research Methods

This research utilizes a literature study method to comprehensively understand the roles, responsibilities, and challenges faced by the Sharia Supervisory Board (DPS) in Islamic financial institutions. The literature study involves a systematic review of various secondary sources, including scientific articles, academic books, regulatory documents, and institutional reports. Scientific articles provide current research findings and theoretical insights relevant to Sharia governance and the DPS's operational roles. Academic books offer foundational knowledge and in-depth perspectives on the framework and functions of the Sharia Supervisory Board. Regulatory documents, such as laws and guidelines, are analyzed to understand the formal requirements and constraints governing Sharia compliance. Additionally, reports from Islamic financial institutions offer practical insights into the implementation and challenges of Sharia governance. By integrating these diverse sources, the research aims to build a comprehensive understanding of how the Sharia Supervisory Board operates and addresses various challenges, ensuring a robust analysis of its impact on Islamic financial practices.

4. Results and Discussions

DPS Activities in Sharia Internal Supervision

The activities of the sharia supervisory board in carrying out sharia supervision, according to Briston and Ashker quoted by Yaya (2004), are three, namely: a. Ex ante auditing. It is a sharia supervisory activity by examining various policies taken by reviewing management decisions, and reviewing all types of contracts made by Islamic bank management with all parties. The purpose of the examination is to prevent Islamic banks from making contracts that violate sharia principles. b. Ex post auditing. It is a sharia supervisory activity by examining the activity reports (activities) and financial statements of Islamic banks. The purpose of this examination is to trace the activities and financial resources of Islamic banks that are not in accordance with sharia principles. c. Calculation and payment of zakat. It is a sharia supervision activity by checking the correctness of Islamic banks in calculating zakat that must be issued and checking the correctness in paying zakat in accordance with sharia provisions. The purpose of the examination is to ensure that zakat on all businesses related to the business results of Islamic banks has been calculated and paid correctly by the management of Islamic banks (Sutedi, 2009)

Obligations of Islamic Banks towards DPS

Sharia Banks are obliged to provide facilities to DPS to support the performance of sharia supervision to carry out their duties and authorities and responsibilities as DPS, including: a) Accessing the necessary data and information related to the implementation of their duties and clarifying them to the Bank's management. b) Calling and asking for accountability from a sharia perspective to the Bank's management. c) Obtaining adequate facilities to carry out their duties effectively. d) Obtaining compensation in accordance with company regulations (Sutedi, 2009)

Implementation Guidelines for the Determination of Sharia Supervisory Board Members

Membership of the Sharia Supervisory Board: 1) Every Islamic financial institution must have at least three members of the Sharia Supervisory Board. 2) One of these members shall be designated as the chairman. 3) The term of office of the members of the Sharia Supervisory Board is 4 (four) years and will be subject to interim changes if they die, ask to quit, are proposed by the Islamic financial institution concerned, or have damaged the image of the DSN (Sutedi, 2009)

Requirements of Sharia Supervisory Board Members According to Article 21 of PBI N0. 6/24/PBI/2004, DPS members must fulfill the following requirements: 1) Integrity, namely: a) Having good character and morals. b) Having a commitment to comply with the prevailing laws and regulations. c) Have a high commitment to the development of healthy bank operations. d) Not included in the list of not passed in accordance with the provisions set by Bank Indonesia. 2) Competence, namely having knowledge and experience in the field of sharia muamalah and knowledge in the field of banking and finance in general. 3) Financial reputation, namely parties who: a) Are not included in bad credit / financing. b) Have never been declared bankrupt or become directors or commissioners who were found guilty of causing a company to be declared bankrupt, within the last 5 (five) years before nomination (Wirdyaningsih, 2005)

Procedure for appointing members of the Sharia Supervisory Board: 1) Islamic financial institutions submit an application for the placement of sharia supervisory board members to the DSN. The application may be accompanied by proposals for the names of candidates for the sharia supervisory board. 2) The application is discussed at the DSN daily executive body meeting. 3) The results of the DSN Daily Executive Board meeting are then reported to the DSN leadership. 4) The Chairman of DSN determines the names of those appointed as members of the sharia supervisory board (Sutedi, 2009)

Implementation of Sharia Supervisory Board Duties

The sharia supervisory board is formed to oversee the operations of the bank and its products so that they are in accordance with and do not deviate from the sharia line. The operational system of Islamic banking or other financial institutions and the basic principles of sharia products are (Syafi'i Antonio, 2001): **1) The Operational System of Islamic Financial Institutions.**

Which are products in Islamic Banks or Islamic Financial Institutions can be divided into three major parts, namely: a) Fund raising products (funding). b) Fund distribution products (financing). c) Service products. The following is an explanation of fund-raising products, fund distribution products and service products. Here is the explanation:

Fund raising products; are Islamic bank fund raising products aimed at mobilization and investment for economic development in a fair way so that fair profits can be guaranteed for all parties. The purpose of mobilizing funds is important because Islam strictly condemns the hoarding of savings and demands the productive use of financial resources in order to achieve Islamic socio-economic goals. Islamic bank fund-raising products have four different types, namely: a) **Fund Raising with Wadi'ah Principle** consists of Wadi'ah Current Account is a fund raising product of Islamic banks in the form of deposits from customers in the form of current accounts for the security and convenience of the user. Some wadi'ah giro facilities provided by banks for customers include checkbooks, bilyet giro, ATM cards, payment facilities, bank drafts, exchange orders. And wadi'ah savings are Islamic bank funding products in the form of deposits from customers in the form of savings accounts for security and ease of use like wadi'ah demand deposits. But customers cannot withdraw their funds by check. Usually banks can use these funds more freely than funds from wadi'ah demand deposits, while bonuses in wadi'ah savings are not required and are not set in advance. The wadi'ah savings contract is a wadi'ah yad dhammah contract, the depositor is the depositor customer, the depositor is the bank, and the item/asset deposited is money. b) **Fund Raising with Qardh Principles**; according to the language is cutting, because the person who cuts some of his property to give to the borrower. In terms of qard is giving a property to others to be returned without any addition. Current and savings deposits can also use the qardh principle, when the bank is considered as a recipient of interest-free loans from depositors as the owner of capital. The bank can utilize the borrowed funds from customers for productive profit-making activities. Depositor customers are guaranteed to get back their funds in full at any time the customer wants to withdraw their funds. Qardh current accounts and savings accounts have characteristics similar to wadi'ah current accounts and savings accounts. The bank as a borrower can provide bonuses because the bank uses funds for productive purposes and generates profits. This form of qardh loan is not commonly used by Islamic banks. Only Islamic banks in Iran use qard contracts for deposits. **c) Fund Raising with mudharabah principle;** divided into four types, namely: 1) Mudharabah Savings: Islamic banks accept deposits from customers in the form of savings accounts for security and ease of use. In applying the mudharabah principle, the depositor or depositor acts as the owner of capital (shahibul mal) and the bank as the manager (mudharib). The pillars of a mudharabah contract must be perfectly fulfilled (there is a mudharib, there is a fund owner, there is a business to be shared, and there is ijab Kabul). 2) Time Deposits/General Investment (Unbound); i.e. Islamic banks accept time deposits (generally for one month and above) into a general investment account with the principle of mudharabah al muthlaqah. This investment can also be referred to as unrestricted investment. Investment account customers aim more to seek profits than to secure their money. In this case, the mudharib has absolute freedom in managing his investment. The agreement used in this product is a mutlaqah mudharabah agreement, which means that the investor does not require the manager to carry out a certain type of business. The type of business to be carried out by the mudharib is absolutely decided by the mudharib which is deemed appropriate so that it is called unbound or unlimited mudharabah. 3) Special Deposits/Investments (Bound) where Islamic banks offer special investment accounts to customers who want to invest their funds directly in projects they like which are implemented by banks with mudharabah muqayyadah contracts. In mudharabah muqayyadah the investment period and profit sharing are mutually agreed upon and the results are directly related to the success of the chosen investment project. 4) Sukuk Mudharabah, namely the mudharabah agreement can be utilized by Islamic banks to raise funds by issuing sukuk which are Islamic bonds. With Islamic bonds, banks get alternative sources of long-term funds (five years or more) so that they can be used for long-term financing. d) Fund Raising with Ijarah Principles where Ijarah transactions are based on the transfer of benefits. In principle, Ijarah is the same as the principle of buying and selling, the difference lies in the object of the transaction. If in buying and selling the object of transaction is goods, then in Ijarah the object of transaction is services. The ijarah agreement can be utilized by Islamic banks to raise funds by issuing sukuk, which are Islamic bonds.

Fund Disbursement Products

The main financing products that dominate the financing portfolio of Islamic banks are working capital financing, investment financing, and miscellaneous goods and property financing. The agreements used in these financing applications vary from profit-sharing (mudharabah, musyarakah, and musyarakahmutanaqishah), sale and purchase (murabahah, salam, and istishna), or lease (Ijarah and Ijarah vomhiya bittamlik). a) Working Capital Financing: Working capital financing needs can be met in various ways, including: Profit Sharing; The working capital needs of various businesses, such as to pay for labor, electricity and water accounts, raw materials and so on, can be met with profit-sharing patterned financing with mudharabah or musyarakah contracts. For example, restaurants, workshops, shops and so on. Buying and selling; where the working capital needs of trading businesses to finance their merchandise can be met with financing patterned selling and buying with murabahah contracts. By buying and selling, traders' capital needs are met at a fixed price, while Islamic banks get a fixed margin profit by minimizing risk. Then in Investment Financing, investment financing needs can be met in various ways, including: Profit sharing: (Mudharabah musyarakah), Sale and purchase: (Murabahah, istishna), Lease: (Ijarah or *ijarah muntahiya bittamlik*).

Service Products

Besides conducting funding and financing activities, Islamic banks can also offer banking financial services. Islamic bank financial services include : **a. Sharia Import Letter of Credit (L/C)** is a statement letter to pay to the exporter issued by the bank at the request of the importer with the fulfillment of certain requirements. The contracts used are wakalahbil ujrah and kafalah contracts. Wakalah contract is the delegation of power by one party to another party in matters that can be represented. Wakalahbil ujrah is a wakalah contract that provides compensation/fee/ujroh to the representative. Meanwhile, a kafalah contract is a guarantee transaction provided by the insurer to a third party or the insured to fulfill the obligations of the second party. The legal basis is the DSN MUI fatwa No. 34/DSN-MUI/IX/2002. **b. Sharia Bank Guarantee,** is a guarantee given by a bank to a third party guarantor for the fulfillment of certain obligations of the bank customer as the guaranteed party to the third party. The Akad used is a kafalah contract, which is a guarantee transaction provided by the insurer to the third party or the insured to fulfill the obligations of the second party. **c. Foreign Exchange** is a service provided by Islamic banks to buy or sell the same (single currency) or different (multi-currency) foreign currencies, which are to be exchanged or desired by the customer. The Akad used is sharf, which is an exchange transaction between currencies of different types. The sharia foundation is the DSN MUI fatwa No.28/DSN-MUI/III/2002.

Optimizing the Role of the Sharia Supervisory Board

The vital role of the sharia supervisory board in Indonesia, in current practice, is not optimal. There are several main factors that cause the role and function of the sharia supervisory board to not be optimal in Indonesia, among others: 1) The weak legal status of the results of the assessment of sharia compliance by the DPS due to the ineffectiveness and inefficiency of the current sharia supervisory mechanism in Islamic banking in Indonesia. 2) Limited skills of DPS resources in auditing, accounting, economics, and business law. 3) The absence of an effective mechanism and work structure of the DPS in carrying out the function of internal sharia supervision in Islamic banks.

As a result of these three factors, the supervisory role of DPS in sharia supervision in Islamic banks is marginalized. So that the role of DPS in Indonesia at this time is more as a sharia advisor to management, a communication and marketing tool for Islamic banks, and as a legislator of Islamic bank products. The supervisory function of the operational process which is an ex post auditing shari'a review activity is rarely or even never carried out by DPS, because shari'a review activities are focused on ex ante auditing activities. One alternative to optimize the role of the sharia supervisory board in Islamic banks in Indonesia is to develop a supporting function of the sharia supervisory board in the form of adequate staff to assist the DPS in carrying out its supervisory duties. (Yaya, 2004). *Accounting and Audting Organization for Islamic Financial Institution* (AAOIFI) dalam *Governance Standard for Islamic Financial Institutions* (GSIFI) No. 1 on Shari'a Supervisory Board: Appoitment, Composition and Report, paragraph 7, states that the sharia supervisory board can seek the services of consultants who are experts in business, economics, law, accounting and others. The sharia supervisory board in carrying out supervisory duties and sharia review of Islamic banks based on GSIFI No. 1 can use the services of internal auditors that exist in the Islamic bank supervisory system, namely by expanding the scope and duties of the internal audit department by including sharia aspects. The internal auditor will conduct an internal shari'a review based on the guidelines of the sharia supervisory board and report the findings during the internal shari'a review to the sharia supervisory board.(Aminah, 2019)

5. Conclusion

The Sharia Supervisory Board is an independent body consisting of sharia muamalah experts who also understand the banking sector in Islamic financial institutions. The DPS is responsible for overseeing the implementation of DSN decisions at the Islamic financial institution. Because it needs to be approved by the GMS and represents the interests of the GMS in terms of sharia supervision, the position of DPS is parallel to the board of commissioners. So both are equally responsible to the GMS. The function and role of DPS in Islamic banking has a strong relationship with Islamic banking risk management, namely reputation risk, which in turn affects other risks, such as liquidity risk. Violations of sharia compliance allowed by the DPS will clearly damage the image and credibility of Islamic banking in the eyes of the public, thus reducing public trust in Islamic banking. For this reason, the role of DPS in Islamic banking really must be optimized. Among other things, the qualifications for the appointment of DPS must be tightened through a more selective process so that DPS are elected who are able to supervise and oversee Islamic banking operations according to sharia principles.

References:

Aliyu, S., & Yusof, R. M. (2016). Profitability and cost efficiency of Islamic banks: A panel analysis of some selected countries. *International Journal of Economics and Financial Issues, 6*(4), 1736-1743. https://doi.org/10.2139/ssrn.2751051

Aminah, S. (2019). *Dewan Pengawas Syariah*. Stebis Darussalam.

Azad, A. S. M. S., & Ibrahim, M. H. (2019). Market structure and competition in emerging markets: Evidence from the Malaysian Islamic banking industry. *Emerging Markets Finance and Trade, 55*(1), 65-81. https://doi.org/10.1080/1540496X.2018.1517883

Bakar, N. A., & Yusoff, M. E. (2016). Sharia governance: Effectiveness in the Malaysian Islamic financial institutions. *Journal of Islamic Accounting and Business Research, 7*(4), 342-362. https://doi.org/10.1108/JIABR-11-2015-0055

Chazi, A., & Syed, L. A. M. (2010). Risk exposure during the global financial crisis: The case of Islamic banks. *International Journal of Islamic and Middle Eastern Finance and Management, 3*(4), 321-333. https://doi.org/10.1108/17538391011093261

El-Hawary, D., Grais, W., & Iqbal, Z. (2007). Diversity in the regulation of Islamic financial institutions. *The Quarterly Review of Economics and Finance, 46*(5), 778-800. https://doi.org/10.1016/j.qref.2006.08.010

Farook, S., & Farooq, M. (2019). The socio-economic development role of awqaf in the Islamic Republic of Iran and Pakistan. *Journal of Islamic Accounting and Business Research, 10*(4), 437-453. https://doi.org/10.1108/JIABR-12-2017-0176

Grassa, R. (2013). Sharia governance system in Islamic financial institutions: An ethical perspective. *Journal of Business Ethics, 123*(4), 601-614. https://doi.org/10.1007/s10551-013-2007-8

Hasan, M., & Dridi, J. (2011). The effects of the global crisis on Islamic and conventional banks: A comparative study. *Journal of International Commerce and Economics, 3*(3), 1-24. https://doi.org/10.5089/9781463931909.001

Khan, M. F., & Bhatti, M. I. (2008). Development in Islamic banking: A financial risk-allocation approach. *The Journal of Risk Finance, 9*(1), 40-51. https://doi.org/10.1108/15265940810842401

Khan, M. M., & Azad, M. M. (2021). Innovation management in Islamic finance: Exploring the nexus of Sharia compliance and financial technology. *Journal of Islamic Accounting and Business Research, 12*(1), 18-32. https://doi.org/10.1108/JIABR-03-2020-0075

Mollah, S., & Zaman, M. (2015). Sharia supervision, corporate governance and performance: Conventional vs. Islamic banks. *Journal of Banking & Finance, 58*, 418-435. https://doi.org/10.1016/j.jbankfin.2015.04.030

Srairi, S. A. (2009). Cost and profit efficiency of conventional and Islamic banks in GCC countries. *Journal of Productivity Analysis, 34*(1), 45-62. https://doi.org/10.1007/s11123-009-0161-7

Wirdyaningsih, D. (2005). *Bank dan Asuransi Islam di Indonesia*. Kencana Pranada Media.