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Literature Study: The Concept of Sharia Governance in Sharia Banking

Yani Suryani[1]*
[1]Mahasiswa Program Doktoral Ekonomi Syariah UINSU
Dosen Universitas Harapan Medan
Jl. Imam Bonjol No. 35 Medan
***Email:** syani91@yahoo.co.id

ABSTRACT
Writing this article aims to discuss the concept and implementation of sharia governance and the role of the Sharia Supervisory Board in sharia banking. The method used in this research is library research. The steps taken in explaining the concept of sharia governance in sharia banking are by searching for appropriate references related to sharia governance. The next stage is to select a more specific source. Then identify the article in detail and present the discussion and make conclusions. The results of Shariah governance are a combination of the concept of good corporate governance (GCG) with shariah compliance. Shariah compliance is the obligation of Islamic banking to comply with sharia provisions. In addition, the existence of DPS differentiates sharia governance from conventional GCG. According to theory, the Sharia Supervisory Board (DPS) is responsible for the shariah review function which guarantees sharia compliance with sharia banking products and activities. The existence of the Sharia Supervisory Board (DPS) which has the task of supervising sharia banking operations and banking products so that they comply with sharia regulations. DPS has three roles, namely providing assessment, directing/directing and controlling sharia banking activities so that they comply with regulations and comply with sharia principles. In addition to these three roles, the DSN-MUI provides an additional DPS role, namely carrying out outreach and educating the public about sharia banking.

Keywords: Shariah Governance, Sharia Banking

INTRODUCTION

Islamic banking is a financial institution whose activities are carried out in accordance with sharia principles (Rahmawaty and Helmayunita, 2021). Islamic banking is faced with the risk of sharia non-compliance so that it requires greater attention in its management. The implementation of governance in financial institutions, especially banking, has its unique characteristics when compared to non-bank FIs (Umam, 2016). The urgency of reliable sharia governance procedures/mechanisms in order to provide protection for the interests and trust of customers, where the presence of third party funds is part of agency conflicts. Transparent and accurate disclosure of sharia governance activities is a necessity for sharia banks because of the diversity of sharia banking stakeholders (Darmadi, 2013).

Shariah governance is a term used in Islamic financial institutions as a structural construction that is unique in Islamic financial institutions with the function of providing assurance that all operational activities of Islamic banking are in accordance with sharia principles (Rama, 2014). Or in other words, the term sharia governance is the implementation of good corporate governance and the application of sharia principles (Wardayati, 2011). In addition, sharia governance is known as a corporate governance structure in Islamic banking as an Islamic financial institution which requires several additional steps in governance to achieve sharia compliance (Hashim, F et al, 2015). To strengthen the principles underlying sharia compliance, sharia governance is implemented to provide certainty for the stability of the Islamic financial system. Shariah governance has the goal of providing certainty of compliance with sharia rules in its business operations. Good control over compliance with regulations and sharia principles can promote sustainable growth. Sharia governance as a basis for increasing compliance can help achieve goals (Saharuddin and Rahim, 2020).

Sharia governance is part of Islamic financial practice which has the function of gaining and maintaining the trust of shareholders and other stakeholders. The role of sharia governance is to provide assurance to stakeholders that all transactions, practices and operational activities are based on sharia principles (Meutia and Adam, 2021). A good sharia governance system can support Islamic financial institutions in mitigating the risk of sharia non-compliance which has the potential for losses which will impact on the credibility of Islamic financial institutions (Mahmood and Mintaa, 2013).

Based on the background of the problems above, writing this article will make studies related to the concept and application of shariah governance and the role of the Sharia Supervisory Board in Islamic banking.

METHOD

The method used in this study is a literature study with the aim of explaining the concept of sharia governance in sharia banking. The steps taken in explaining the concept of sharia governance in sharia banking are by searching for appropriate references related to sharia governance. The next stage is to select a more specific source. Then identify the article in detail and present the discussion and make conclusions.

RESULT AND DISCUSSION

According to Triyuwono (2015) the principle of sharia enterprise theory explains that the main form of accountability vertically is to Allah SWT which is further described in the form of horizontal accountability to humans and the environment. In this study, shariah enterprise theory forms the basis for discussing shariah governance.

Shariah governance is a governance concept that is unique and specific to financial institutions, including Islamic banking, that offer products and services that comply with sharia principles. Shariah governance is essentially good corporate governance (GCG) which has the main function of reviewing sharia compliance in all sharia banking activities. In order to carry out this function, the sharia governance system must have three elements, namely DPS, sharia compliance assessment and sharia review procedures (Rama, 2015). Basically the concept of GCG (Good Corporate Governance) for conventional banks and Islamic banking is the same, the difference is the existence of sharia compliance and DPS. According to BI (Bank Indonesia) GCG is banking governance that practices the principles of openness, accountability, responsibility, professionalism and fairness. Next, sharia compliance is the obligation of sharia banking to comply with sharia principles, where sharia banking activities must strictly comply with sharia provisions (Rini, 2018). The combination of the concepts of good corporate governance (GCG) and shariah compliance is known as shariah governance (Wardayati, 2011). Furthermore, the task of the sharia supervisory board is to research and provide recommendations for new products to the banks they supervise. Also carrying out the supervisory function of its business activities in accordance with sharia principles according to the provisions of the fatwa and Islamic sharia. In addition, the existence of the National Sharia Council (DSN) has the main function of supervising banking products that comply with Islamic law (Sabila, 2018).

Two processes in the sharia supervisory system in the sharia governance framework include before and after the transaction. The Shariah Supervisory Board (SSB) as an independent party supervises the pre-transaction process or the Shariah Advisory Firm issues fatwas regarding the operation and structure of LKS. Furthermore, to socialize sharia principles and carry out supervision of compliance with sharia principles, a compliance function is needed. Control/supervision after the transaction is carried out by the internal sharia audit function. In addition, the independent external audit function provides assurance that sharia compliance standards are met. This activity involves the Shariah Supervisory Board or Shariah Advisory Firm (IFSB in Rama, 2015).

Islamic banking must provide certainty regarding the application of the principles of good governance in every part of its business which includes five basic principles, namely transparency, accountability, responsibility, professionalism and fairness. In realizing business continuity (sustainability) of Islamic banking, it is necessary to apply the principles of good governance, while still paying attention to the interests of shareholders, customers and other stakeholders (KNKG, 2012).

Following is an explanation of the basic principles of good governance/good sharia governance (Sabila, 2018): (1) openness/transparency, disclosure and availability of sufficient/adequate information and for stakeholders easy access to information. Initiatives must be taken by sharia business actors to make disclosures covering those required by laws and regulations as well as important matters in sharia-compliant decision-making; (2) Accountability/Accountability is the clarity of organizational functions and how to carry out their accountability. Accountability for performance in a fair and transparent manner must be carried out by sharia business actors. In order to achieve sustainable performance, accountability is required; (3) Accountability/responsibility, laws and regulations and sharia business provisions must be complied with by business people and accountable to society and the environment so that business continuity can be maintained in the long term; (4) Professional, has competence so that he has the ability to take action objectively and freely/independently. In addition, it has a commitment to the development of sharia banking. The management of Islamic banks must be carried out independently so that there is no mutual intervention with other parties. Continuing to uphold the values of truth even when faced with risks, this is the relationship between the principle of independence and consistency/istiqomah attitude; (5) Fairness, providing equal treatment and opportunity is a manifestation of fairness in business activities.

The existence of the Sharia Supervisory Board (DPS) which has the task of supervising sharia banking operations and banking products so that they comply with sharia provisions. The requirement for DPS is an element that distinguishes Islamic banks from conventional banks. According to AAOIFI, DPS has three roles in Islamic financial institutions, namely providing assessment, directing and controlling Islamic banking activities so that they comply with regulations and comply with sharia principles. In addition to these three roles, the DSN-MUI provides an additional DPS role, namely carrying out outreach and educating the public about Islamic banking (Faozan, 2013).

Islamic banking does not only have a function as a channel of funds but has a role in supervising public finances. So that the size of the growth of Islamic banking is not only seen from the amount of third party funds, profits and the high level of financing provided. However, the size is broader, namely Islamic banking has the task of realizing community prosperity in the economic and financial fields based on Islamic sharia. The Sharia Supervisory Board/DPS at LKS (Islamic Financial Institutions) is a representative/representation of the role of the clergy in upholding ethical values/Islamic values and economic development (Anami, et al 2018).

According to Muneeza and Hasan 2014 the expected sharia governance model must have the following components, namely (1) Every Islamic company must have an independent sharia committee; (2) The decision of the sharia committee is binding on the directors; (3) Shura or consultation and consensus seeking must be a way of making decisions; (4) Sharia sub-committees must exist in each department; (5) Sharia audit is carried out at least once a year and details of the report must be included in the company's financial statements; (6) Stakeholders of sharia corporations are not only shareholders; (7) the right to sue the sharia committee in cases of negligence. All of these elements must exist in the sharia governance model.

DISCUSSION

The concept of sharia governance refers to the research results of Puspitasari and Muhammad (2019) where according to theory, the DPS is responsible for the shariah review function where the DPS plays a role in ensuring sharia compliance with sharia bank products and operating activities. In addition, there is an internal function in Islamic banks which plays an important role and provides support to DPS in carrying out sharia reviews, namely carrying out internal audit and compliance functions. Internal audit has the duty to provide reports on the results of branch audits. The compliance function has the task of assisting the sharia supervisory board in conducting sharia reviews until the DPS makes a report on the results of the sharia review. Thus the internal function of sharia banking, which consists of internal audit and compliance functions, plays a role in determining the procedures, processes and mechanisms for shariah review carried out by DPS.

The research results of Ali Rama and Novela (2015) show that sharia governance which consists of the number of DPS members, DPS doctoral qualifications and the level of attendance of DPS in meetings has an influence on the quality of sharia banking governance. This means that the sharia governance system of sharia banking contributes to improving the quality of sharia banking governance. In this study it can also be seen that financing risk has an influence on the quality of Islamic banking governance so that high non-performing loans/NPF can reduce Islamic banking governance.

The results of Rini's research (2018) showed that the implementation of good ICG/shariah governance in Islamic banking is accommodated by the existence of Islamic banking laws and BI regulations. The existence of ICG can be identified by the formation of Sharia Supervisory Board and sharia compliance in Islamic banking; The implementation of ICG in Islamic banking has not been carried out in full for sharia compliance of sharia banking products.

Saharuddin and A. Rahim's research (2020) gives the result that the shariah governance disclosure index is a method/model in measuring company compliance. There are many risk findings that have the potential to cause losses to companies since the Islamic finance industry has experienced rapid development. Thus, great attention is needed on the level of compliance with shariah governance so that sustainable growth can be achieved.

Research conducted by Prabowo and Jasri (2017) states that the function and role of the Sharia Supervisory Board has a strong relationship with Islamic bank risk management, namely reputation risk which will later affect other risks, such as liquidity risk. Violations of sharia compliance that are ignored can affect the image and credibility of sharia banks which can reduce public trust.

IMPLICATIONS

Shariah governance is the concept of good corporate governance that is the same as conventional banks, the difference in sharia governance is sharia compliance and the sharia supervisory board (DPS). So that sharia governance is a governance concept that has uniqueness and specificity for financial institutions including sharia banking that offers products and services that comply with sharia principles. Shariah governance is essentially good corporate governance (GCG) which has the main function of reviewing sharia compliance in all sharia banking activities. The basic principles of good governance/good sharia governance include transparency, accountability, responsibility, professionalism and fairness.

In the sharia supervisory system in the sharia governance framework, there are two processes including before and after the transaction. Prior to the transaction process, supervision is carried out by an independent party, namely the Shariah Supervisory Board (SSB) or the Sharia Advisory Firm, which issues a fatwa regarding the operation and structure of the LKS. Furthermore, socialization of sharia principles and implementation of control over sharia compliance is in the compliance function. Control/supervision after the transaction is carried out by the internal sharia audit function. In addition, the independent external audit function provides assurance that sharia compliance standards are met. This activity involves the Shariah Supervisory Board or Shariah Advisory Firm (IFSB in Rama, 2015).

CONCLUSION

Shariah governance or sharia governance of Islamic banking has a top priority, namely accountability to Allah SWT or accountability to Allah SWT. Shariah governance is a combination of the concept of good corporate governance (GCG) with shariah compliance. Shariah compliance is the obligation of Islamic banking to comply with sharia provisions. In addition, the existence of Sharia Supervisory Board differentiates sharia governance from conventional GCG.

In theory, the Sharia Supervisory Board (DPS) is responsible for the shariah review function which guarantees sharia compliance with sharia banking products and activities. The existence of an internal function includes the internal audit function and the compliance function which provides support to DPS to carry out shariah reviews and report the results of shariah reviews.

The existence of the Sharia Supervisory Board (DPS) which has the task of supervising sharia banking operations and banking products so that they comply with sharia regulations. According to AAOIFI, DPS has three roles, namely providing assessment, directing/directing and controlling sharia banking activities so that they comply with regulations and comply with sharia principles. In addition to these three roles, the DSN-MUI provides an additional DPS role, namely carrying out outreach and educating the public about sharia banking.

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