Akuntabilitas: Jurnal Ilmu Akuntansi
Volume 16 (1), 2023

P-ISSN: 1979-858X;
E-ISSN: 2461-1190
Page 73 - 84

Shariah Governance Practice on Indonesian Islamic Banks

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Abstract

The shariah governance system is crucial in Islamic banks because of its unique structure that is different from a conventional bank. The fundamental difference between shariah governance and conventional governance is marked by the presence of a shariah supervisory board (SSB). This study aims to analyse the practice of shariah governance in Islamic banks in Indonesia. This study uses a qualitative approach with content analysis to assess the conformity of SSB practices with applicable regulations. The results of the analysis found that there were no Islamic banks that violated the provisions in recruiting or the characteristics of SSB. This research is expected to contribute to the quality of SSB through various backgrounds.

Keywords: Islamic Bank, Sharia Governance, Shariah Supervisory Board, Indonesia

Abstrak

Sistem tata kelola syariah sangat penting dalam bank syariah karena strukturnya yang unik dan berbeda dengan bank konvensional. Perbedaan mendasar antara tata kelola syariah dengan tata kelola konvensional ditandai dengan hadirnya dewan pengawas syariah (DPS). Penelitian ini bertujuan untuk menganalisis praktik tata kelola syariah pada bank syariah di Indonesia. Penelitian ini menggunakan pendekatan kualitatif dengan analisis konten untuk menilai kesesuaian praktik SSB dengan peraturan yang berlaku. Hasil analisis menemukan tidak ada bank syariah yang melanggar ketentuan dalam perekrutan maupun ciri-ciri DPS. Penelitian ini diharapkan dapat memberikan kontribusi terhadap kualitas SSB melalui berbagai latar belakang.

Kata kunci: *Bank Syariah, Tata Kelola Syariah, Dewan Pengawas Syariah, Indonesia*

INTRODUCTION

Shariah governance in Islamic banks attracts many researchers because of its unique structure. Shariah governance has a supplemental layer to non-shariah corporate governance (Muhamad & Sulong, 2019). Excluding being unique, the shariah governance system is integral to Islamic Financial Institutions (IFI) corporate governance. IFI forms a governance committee at the director level and reports shariah governance in an annual report for better implementation (Sueb et al., 2022). The concept of shariah governance emerged in the nineteenth century after the birth of Islamic banks and finance. The revolution in formulating shariah governance rules so that compliance with Islamic law continues to be carried out in line with the increasing number of companies that comply with shariah rules (Muneeza & Hassan, 2014).

The global financial crisis has caused difficulties for conventional banks worldwide (Johnes et al., 2014). Smolo & Mirakhor (2010) argue that conventional banking that uses interest and financial speculation instruments is considered a trigger for the crisis. On the other hand, Islamic banks can avoid a crisis because their operations are strictly regulated by shariah principles that prohibit interest-based financial products and speculation (Dridi & Hasan, 2014). The Islamic financial intermediary model has a protective role in reducing potential losses and shocks due to unpredictable financial crises. Islamic bank rules support those assets in the real sector and finance (Majdoub et al., 2016).

Shariah governance in Islamic banks is also an impressive issue for researchers because Islamic banks are inseparable from governance failures that lead to financial collapses (Muhamad & Sulong, 2019). Some Islamic financial institutions experienced failures and financial difficulties, such as Ihsan Finance in Turkey in 2001, Islamic Bank of South Africa (IBSA) in 1997, Islamic Investment Companies of Egypt (IICE) in 1988, Dubai Islamic Bank (DIB) and Islamic Bank Malaysia Berhad (BIMB) in 2005. The causes of the failure were poor governance, lack of a sound control system, weak risk management, and non-compliance with shariah principles in operational activities (Nomran et al., 2018). Healthy shariah governance practices will increase risk mitigation and improve IFI's financial stability (Prasojo et al., 2022b).

This research is essential considering that shariah governance in Islamic banks can contribute to the sustainability of Islamic banks. This study focuses on analysing shariah governance practices related to the characteristics of the shariah supervisory board in Indonesian Islamic banks (IB). The study's results will provide insight into the shariah governance framework in Indonesia. The results of the analysis provide an evaluation of shariah governance practices in Indonesia based on the recommendations of the Auditing Organization for Islamic Financial Institutions (AAOIFI) standards.

ISLAMIC BANKING AND SHARIAH GOVERNANCE

Islamic Financial Institutions (IFIs) were established in Egypt in 1970 and then spread to the Middle East, Europe, and America. Until 2009, the number of IFIs reached 458 worldwide (Garas & Pierce, 2010). In recent years IFI has developed rapidly; along with these developments, it is essential to strengthen institutions by improving governance systems that can reflect the performance of institutions. Islamic banking is a platform for Muslims to benefit from financial services such as savings, obtaining financing or investing (Zain & Shafii, 2018).

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DOI: 10.15408/akt.v16i1.32348

The bank requires that every transaction must be under shariah principles, so the existence of the shariah supervisory board (SSB) is fundamental to be responsible for overseeing such compliance (Ajili & Bouri, 2017). Shariah governance enriches the corporate governance framework because it creates transparency, trust, ethical behaviour, credibility, religious values, and beliefs so that shariah governance will fail in the Islamic finance industry (Grassa, 2016). IFI has an SSB that is obliged to validate shariah compliance in every operating contract to comply with shariah principles and to provide and disclose information to shareholders about compliance (Ahmed et al., 2018). Therefore, IFI requires an efficient SSB system to oversee sharia aspects in each activity. This management instrument is often referred to as the SSB, which plays an essential role in IFI to conduct supervision, monitoring, auditing and issuance of regulations and fatwas.

SHARIAH GOVERNANCE FRAMEWORK

Corporate governance is defined as a set of functions, regulations, habits and applicable laws that govern how a company should be run (Hazizi & Kassim, 2019). The basic framework of shariah governance consists of deliberation, supervision through SSB and shariah audits (Ajili & Bouri, 2018). Corporate governance in the perspective of Islam according to theories related to the decision-making process that uses the premise of the epistemology of Islam about the oneness of God (Buallay, 2019). The theory and practice of corporate governance are related to maximising the common interests of a network of factors related to operations, organisation, and the interrelationship of company goals and objectives. Philosophical and cultural views in achieving goals will result in the preferences and behaviour of agency and institutional organisations experiencing subtle interactions in expressing the rules of guidance and control for corporate governance (Prasojo et al., 2022b)

Governance from accounting is a tool of accountability because the company is seen as a collection of resources for business activities. Then it is necessary to account for stakeholders regarding the information on the use, storage, maintenance and reporting of assets. Information and accountability functions in public companies because investors depend on the information's accuracy (Ajili & Bouri, 2018). Governance from the accounting perspective is related to the reporting of the management of company resources. Management has allocated resources efficiently in business operations to produce maximum returns to stock traders.

There are various corporate governance models worldwide; each has its characteristics and features. The Anglo-Saxon model is also called the Anglo-American model, a combination of corporate governance practices in the US, Canada, Australia, and other developed countries. This model emphasises the separation of ownership and management with the characteristics of an independent and executive board (Kaur, 2018). Three types of shariah governance are practised: decentralisation, centralisation, and mix. In the decentralisation approach, an Islamic bank (IB) has an independent SSB that the central bank does not regulate. SSB has the authority to decide on contracts or financial products under shariah. GCC countries like Kuwait, Saudi Arabia, Bahrain, Qatar, UAE, Jordan, Yemen, Gambia, and Indonesia adhere to this system. This system has no national-level SSB in the central bank (Hazizi & Kassim, 2019). The central bank has SSB at the national level in the centralisation approach. Each SSB shall be subject to and obey the central SSB fatwa. The

DOI: 10.15408/akt.v16i1.32348

purpose of SSB's centralisation is to reduce the difference in interpretation. This system was adopted by Malaysia, Pakistan, and Sudan (Nomran et al., 2017). The adoption of the shariah governance framework in each country or region is different. The GCC adopts decentralisation with the difficulty of reaching an agreement if there is a conflict of interest. Malaysia adheres to a centralised system by requiring the shariah review, audit and risk management functions to strengthen compliance (Mansour & Bhatti, 2018).

SHARIAH GOVERNANCE IN INDONESIA

In the Indonesian context, customer confidence in Islamic banking still needs to be better developed. Most Indonesian people still think Islamic banks are the same as conventional ones. Islamic banks only replace the terms in conventional banks with new terms related to Islam but, in principle, the same. Besides, many strategic positions in Indonesian IB are occupied by people who need to be more competent regarding compliance with Islamic principles. As a result, some business strategies formulated by IB are outside the provisions of Islamic principles. This situation provides a bad experience for customers, which has the potential to reduce the level of customer confidence in IB. Therefore, Indonesian IBs must have quality human resources who can use banks and compliance with Islamic principles. Talents in IB must have a sense of preaching in building relationships with customers to provide a deep understanding of the governance system built in IB. If customer understanding of the IB system increases, customer confidence will increase simultaneously. Finally, establishing customer trust will create customer loyalty to Indonesian IBs, simultaneously increasing the market share (Fauzi & Suryani, 2019). On the other hand, the adoption of shariah governance structures in Indonesia still needs to be improved compared to the best practices of other countries in the world (Mihajat, 2019).

Figure 1. Regulation of Shariah Governance in Indonesia

Regulation	Description
1. Constitution 21th Tahun 2008 about Sharia Commercial Bank (Republik Indonesia, 2008)	Sharia Commercial Banks (SCB) and Sharia Business Units (SBU) are required to appoint a Sharia Supervisory Board (SSB) appointed through the General Meeting of Shareholders and the recommendation of the Indonesian Ulema Council (MUI). SSB must advise directors and supervise bank activities following Sharia principles (Chapter V article 32).
2. PBI 11th/3/PBI 2009 about Islamic Banking (Bank Indonesia, 2009)	a. SSB is domiciled at the head office of the bank. SSB qualifications include (1) integrity (having good character and character committed to complying with Sharia banking regulations and applicable laws, commitment to developing healthy and sustainable banks and must pass Bank Indonesia fit and proper test (2) competence, having knowledge and experience in the field of Sharia law and knowledge in banking or finance in general, (3) financial reputation, not included in the list of bad loans, never declared bankrupt or shareholders, members of the board of commissioners or directors who is found guilty of causing a company to go bankrupt within the last five years before being pledged (article 35).

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Regulation	Description
	c. The number of SSB is at least two people or at most fifty per cent of the number of members of the board of directors; a chairman leads members, and the member can only hold concurrent positions as a member at most in four other shariah financial institutions (article 36). d. Banks must submit prospective SSB members to obtain Bank Indonesia approval before occupying their positions; the appointment by the general meeting of shareholders (GMS) is effective after obtaining Bank Indonesia's approval. Submission candidates for members must obtain a recommendation from MUI (article 37). e. Application for approval is submitted to the bank to Bank Indonesia, accompanied by supporting documents. Approval is given based on the completeness and correctness of documents and interviews of prospective members. Approval is given thirty days after the application document. The approval of prospective SSB members becomes invalid, and the appointment of SSB members must be reported by banks to Bank Indonesia no later than ten days after the effective appointment date, accompanied by supporting documents (article 38). f. Dismissal or resignation of SSB members must be reported to Bank Indonesia by ten days after dismissal or resignation (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. Requirements (number, criteria, double position) SSB (article 44). b. The proposal for the replacement of SSB members to the GMS is carried out by taking into account the recommendations of the remuneration and nomination committee; the term of office of DPS members is the same as the Board of Commissioners (article 45). c. SSB permits to carry out duties and responsibilities under GCG principles (article 46) d. SSB duties and responsibilities, as well as their implementation, SSB is required to submit reports on the results of the semester supervision; the report must be submitted to Bank Indonesia a maximum of two months after the semester period ends (article 47) e. SSB members must provide sufficient time to carry out their duties and responsibilities optimally (article 48) f. The SSB meeting must be held at least once a month, the decision-making of the meeting is carried out by consensus agreement, all decisions made in the minutes of the meeting are joint decisions of all members, the results of the meeting must be well documented (article 49) g. SSB members must disclose multiple positions in the GCG report (article 50) h. SSB members are prohibited from utilising SCB for personal interests that can reduce SCB assets or profits, are prohibited from receiving other facilities besides the remuneration and facilities determined by the GMS, and are required to disclose remuneration and facilities received in GCG reports. SSB members are prohibited from concurrently acting as consultants in all SCB or SBU (article 51).

DOI: 10.15408/akt.v16i1.32348

Regulation	Description
4. SEBI 12th/13/DPbS/2010 about the implementation of good corporate governance for the Islamic Bank and Islamic Business Unit (Surat Edaran Tentang Pelaksanaan Good Corporate Governance Bagi Bank Umum Syariah Dan Unit Usaha Syariah, 2010)	a. SSB Duties and responsibilities: supervise the development of new products and bank activities related to compliance with sharia principles. b. SSB may ask for an explanation from bank officials regarding the purpose, characteristics and contract of the new product to be launched, examine the new product contract, and analyse the suitability of the contract to be used with the national SSB fatwa. The Indonesian Ulema Council examines new product systems and procedures related to compliance with sharia principles and provides sharia opinions on products to be launched. c. SSB analyses directors' reports and internal audits to determine the quality of compliance with sharia principles on transactions. SSB determines the number of transaction samples, test samples, observations, and confirmations to support the examination results. SSB reviews SOPs related to sharia aspects to provide sharia opinions and report supervision results to the board of directors.

METHODOLOGY

The research methodology applied is qualitative, with content analysis on the annual report of Islamic banks for the 2021 period. The data is obtained from the website of each bank. The number of research samples is 12 non-window banking Islamic banks.

RESULT AND DISCUSSION

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, a share of 25.1% is held by Dubai Islamic Bank. 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.

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

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DOI: 10.15408/akt.v16i1.32348

five total assets nationally in 2021 in first place with total assets of IDR 265 trillion. BSI is the largest bank in Indonesia, with 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.

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	Privat	58,899,000	-12%	0.000	0.196
4	Bank Victoria Syariah	Privat	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	Privat	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	Privat	6,220,221	-17%	- 0.037	0.202
10	BCA Syariah	Privat	10,642,300	0%	0.008	0.733
11	Bank Aladin Syariah, Tbk	Privat	2,173,162	15%	- 0.056	0.041
12	BTPN Syariah, Tbk	Privat	18,543,856	17%	0.079	0.137

Islamic bank sales growth, the average industry sales growth in the observation period 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. The condition of BMS, when viewed from the net profit from operational activities, 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 set by OJK in terms of SSB ownership. The majority of sharia commercial banks only have two SSB members. BSI, the largest bank owned by the government, recruited the most SSB, 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 SSB at other sharia institutions in the same period (cross-membership), a maximum of four sharia financial institutions. Most SSB 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 sharia 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. In the absence of 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

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DOI: 10.15408/akt.v16i1.32348

(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 negatively impact if not adequately 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

Implementation of 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 that 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 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. In its annual report, the bank has disclosed the number of SSB meetings. The entire sample reported the number of SSB meetings, and 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-member 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, namely 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 SSB in Indonesia has 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.

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DOI: 10.15408/akt.v16i1.32348

CONCLUSION

Analysis of sharia governance of 12 Islamic banks in Indonesia in 2021 focuses on SSB. The results show that the SSB criteria, which consist of holding SSB, requirements, number of meetings, not consulting, and SSB report comply with the provisions of the regulator. The role of SSB in the operations of Islamic banks is very crucial, considering that the level of public trust in Indonesia in Islamic banks is still low. SSBs that carry out their functions properly, supported by the literacy level of Islamic banks, can increase confidence in Islamic bank products. The difference between SSB provisions in Indonesia and AAOIFI is the number of members. AAOIFI requires a minimum number of three members, while regulations in Indonesia only have two members. The difference in the number of members will impact the background composition of the SSB. More SSB members will increase the diversity of backgrounds to improve the quality of supervision. More diverse members will increase the discussion because they have more expertise and views on monitoring activities.

This research contributes to the shariah governance literature, which describes the SSB characteristics of each Islamic bank in Indonesia. Regulators can consider the results of this analysis to regulate the composition of a more diverse SSB, referring to the AAOIFI standard. This research has limitations in the scope of discussion, namely Indonesia and AAOIFI standards. In addition, this study does not present the percentage level of compliance with each SSB criterion. Subsequent research can compare SSB practices in Indonesia with Malaysia, which already has a shariah governance framework.

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