

The active role of Sharia Supervisory Board in Sharia compliance and risk mitigation: a case study of Bank NTB Syariah, Indonesia

Muslihun MUSLIHUN*

Email: muslihun@uinmataram.ac.id

*Corresponding Author

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Abstract

This study aimed to shed light on the roles of the Sharia Supervisory Board (SSB) in carrying out their tasks, particularly in ensuring the compliance of Sharia banks and mitigating its risks at BNTB Syariah. Unless well carried out, it will result in several risks, mainly related to reputation and finance. Drawing on a qualitative research approach, this study garnered data from many sources, such as interviews, observations, and documentation. The data were analyzed using the descriptive-analytic method. The findings showed that (1) the involvement of SSB in carrying out their roles and monitoring the products of Sharia banks is portrayed by the three activities: (1) regular and accidental meetings discussing halal products, which were planned and already in the sale; (2) direct monitoring visiting the bank branches; and (3) undertaking coaching with a broader scope, such as explaining the sharia aspects before purchasing of products, and ethical outfit and service towards the costumers. These tasks resemble the so-called "DPS plus" (SSB plus). SSB also complied with the national Sharia council (DSN), excepts on certain items exclusive of the Fatwa of the National Sharia Advisory board (NSAB). The solution and mitigation offered by SSB in undertaking their tasks were always based on the Fatwa stipulated by the Islamic Ulema Council, following the Islamic jurisprudence and law. It was also found that risk mitigation was executed by promoting sharia financial literacy and active monitoring.

Keywords: Sharia banks, shari'a compliance, SSB Plus, Fatwa NSAB, Active Monitoring, Risk Mitigation.

Introduction

The rapid development of financial and sharia banking industries has required highly professional human resources or professionals with both conceptual knowledge and performance regarding Islamic economic management. The directors and unit heads need these competencies and employees, and less critical is the availability of a professional and integrated Sharia Supervisory Board (SSB).

Since its emergence, sharia banks in Indonesia have undergone rapid development. Despite low market share, there at least emerged Bank Syariah Indonesia (BSI) (Indonesian Sharia Bank), a national sharia bank arising from three different conventional state sharia banks, not to mention the recent initiative of converting BPD (regional sharia banks) into BUS (General sharia Bank), such as initiated by Bank NTBS. Such a trend will not rise concerning the remaining public distrust of Sharia compliance. For this reason, SSB is of critical importance.

The growth of the Sharia banking system immediately requires an array of conditions, such as the optimum readiness of the SSB to monitor the performance of the available sharia banks, especially related to the Fatwa of the National Sharia Advisory board (NSAB) on the sharia-based products. Agustianto (2004) advocates that the SSB in financial intuitions and sharia banks play a key and strategic role in implementing sharia principles in the institutions. However, their monitoring

roles remain inadequate. In such a context, SSB should ensure it complies with sharia-based products and monitor proper management and principles in the financial institutions regarding profit distribution. Even, it is incumbent upon the board to jointly share the sharia-based products of the sharia banks to their adherents through congregations, Friday preaching, and teachings in universities and Islamic schools (Agustianto, 2004).

Many issues require serious attention and discussion to secure the image of sharia banking and adhere to the Islamic principles. The primary problem is related to the difficulties in integrating the Fatwa of SSB and the intentions or wants of the customers and the sharia bank per se. Generally, SSB is regarded solely as an additional burden for the emergence of the public financial institutions in Indonesia. TGH. Salimul Jihad (2018) illustrates it by the time of the customers intend to use the products Murabaha (cost-plus financing) through wakalah (representation). It is stated in the Fatwa that the representation should be served in compliance with the initial conditions as described in the budget planning. Many customers want to purchase products more flexibly, although they are not enlisted in the budget plan.

On the other side, the SSB wants to enforce the regulations following the Fatwa stipulated by the NSAB. Still, they also want to ease the costumers in purchasing the products of and making them interested in Sharia banks. This results in a conflicting issue, namely the intention to facilitate the customers at the expense of Sharia principles. Subsequently, this issue puts the role of SSB at stake, either strictly adhering to the sharia banking

system or remaining firm to defend the public interest. Then, do the sharia banks and SSB have profitable alternatives without undermining the sharia principles?

The study by Bagya Agung Prabowo and Jasri Bin Jamal (2016) encapsulated that the notion of sharia permitted by the SSB could undermine the esteem and credibility of the sharia banks in the people's eyes, leading to their distrust of the sharia banking system. Likewise, Wulpiah (2017) opines that the monitoring of sharia compliance in the sharia financial industries becomes paramount as a preventive measure to ensure the policies, conditions, actions, systems, and procedures comply with Bank Indonesia (BI), fatwa NSAB, and state law. It enables control over the operation of sharia banking, ensuring its compliance with the sharia principle and minimizing the risk.

Unlike the abovementioned studies, the current study aimed to explore the roles of SSB in their tasks and in mitigating the risks in case of their inadequate performance. To this end, the following research questions were formulated:

What were the roles of SSB in controlling the products of Bank NTB Syariah?

How did the SSB understand the Fatwa of NSAB as the basis of ensuring the Shariah compliance of the products of Bank NTB Syariah?

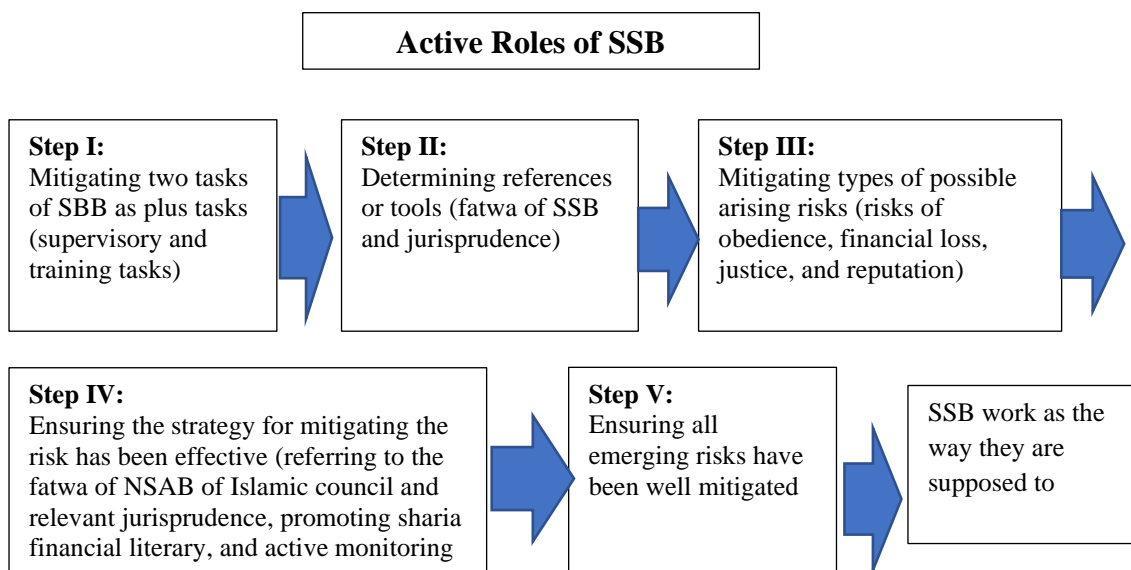
What strategies were adopted by the SSB to mitigate the risks arising from sharia compliance?

Method

This study employed qualitative approach procedures, determining the data sources, data collection methods and analysis. It took place in Bank NTB Syariah, Mataram, Indonesia where the data were gathered from three different sources: observations, informants, and documentation. The informants were the members of SSB, who were purposively selected from each bank and were supposed to have competence regarding the tasks of SSB.

The data were collected through observations, interviews, and documentation. Observation was to gather information pertinent to the roles of SSB and the problems they encountered throughout the task execution process. The interview involved those with active roles as SBB and the bank officers. Documentation was conducted to look into the information from the relevant literature, such as books and scientific papers.

The data were analyzed using Interactive Model of Analysis. This aimed to gain relevant and in-depth information regarding the investigated issues. It drew on inductive data analysis, where oral and written words from the informants were interpreted to generate specific conclusions. In the final stage, the data were analyzed using descriptive analysis, namely developing categories and linking them with other relevant categories to generate novel descriptions of the investigated problems (Moleong, 1989). The following figure illustrates the flow of this study:



Findings

The need of Sharia Supervisory Board (SBB) at Bank NTB Syariah

Before discussing specific monitoring, the following two monitoring systems applied in the Sharia bank are presented: first, financial tracking, general obedience to banking systems and principles; second, sharia monitoring over the two operational banking activities (Hidayati, 2008).

One of the problems faced by the sharia financial industries in Indonesia is the availability of high-quality human resources, especially the SSB. The continuous growth of the economic and banking sectors has urged the need for highly qualified SSB. Bank Indonesia (BI), the Indonesian central bank, has set a target to seek for sharia market share to be 5% with the inadequacy of four thousand bank officials (Koran Republika, 2007). The second problem is the lack of public understanding of the sharia financial and banking system. This is evidenced in the scarcity of people adopting the sharia banking services compared to the number of them using conventional banks.

Bagya Agung Prabowo and Basri bin Jamal address the lack of this human resources capacity. The described eleven shortages of SSB in Indonesia. One of them is the selection of the SSB members based on their charisma and popularity in the community, not because of their knowledge in the sharia banking and financial systems (Prabowo & Jamal, 2017).

Furthermore, Sutedi (2014) pointed out that the capacity of the SSB member influences the complexity of the financial monitoring including the human resources. With this regard, there are some points to be taken into account, namely: 1. know the mission; 2. know the entity; 3. know supervision technique and how to do it; 4. character building.

The aspect of sharia compliance is primary and fundamental that distinguishes between the sharia and conventional banks. The results of the joint study by Bank Indonesia and universities in Java Island in 2000 uncovered that the decision of the people to purchase sharia products was influenced by the halal products and the services, which correspond to the sharia principles. The study also highlighted that one of the reasons people cease using sharia banks is their uncertainty of banks applying the sharia principles. To ensure that the operation of sharia banks complies with the sharia principles, they should have an independent internal board to monitor their compliance, such as SSB.

The SSB has a crucial role in developing sharia banks in Indonesia. Their critical roles include (a) determining the credibility level of sharia banks; (b) becoming the primary source of ensuring sharia compliance; (c) becoming one of the main pillars in implementing the Good Corporate Governance (GCG) of sharia banks.

Based on the regulation of the Indonesian central bank No. 6 the Year 2004 paragraph 27, the tasks, power, and responsibility of the SSB were (a) to ensure the compliance of the operation of the banks with the Fatwa of the NSAB; (b) to assess the sharia aspects based on the operational guide and products of the banks; (3) give opinions on the aspect of sharia of the bank operation in general about public reports; (4) examine new services and products without Fatwa and request it to the NSAB; (5) report the monitoring outcomes of sharia at least every six months to the direction, commissaries, NSAB, and financial service authority.

Accounting and Auditing Organization for Islamic Financial Institution pinpointed in the GSIFI No. 1 paragraph 2, which states that the tasks of SSB is to direct, assess, and monitor all the Islamic financial institutions to ensure their activities comply with the sharia principles and regulations. Hence, in general, the tasks and functions of the SSB in sharia banks were to carry out monitoring and guidance over the activities of sharia banks to abide with the sharia principles and Fatwa of the NSAB, including reporting the results to the institution. On the other hand, their obligations include (a) obeying the Fatwa issued by NSAB; (b) monitoring the business activities of the sharia financial institutions to adhere to the sharia principles and regulations stipulated by NSAB; (c) reporting the business activities and development of financial institutions, which are regularly monitored, to the NASB a least twice a year (Widyaningsih et al., 2005).

Agustianto (2004) suggested that SSB should help socialize, educate, and market the shariah banking products. Thus, socialization and educations are additional tasks in addition to their monitoring role as formal tasks. This is what it is meant to be SSB plus. During Islamic preaching and Friday prayer, three members of the SSB should present materials regarding the

Sharia economy, principles and history of Islamic economy, the advantages of sharia bank, and the differences between sharia and conventional banks (Agustianto, 2004).

Typology of active roles of SSB in Bank NTB Syariah

The form of active involvement of SSB in Bank NTB Syariah can be classified into two roles, monitoring and coaching roles. When applying for the latter role, SSB is known as SSB Plus (Agustianto, 2004).

Primary role: Monitoring

In monitoring the products of Bank NTB Syariah, the role of SSB can be categorised into two: meeting on materials involving internal members of SSB, and meeting with directions and commissaries. Based on this, Munawar (2021) stated:

"As members of SSB, we are regularly invited by the bank directors to complete tasks regarding the application of products. The invitation is a form of the shariah bank responsibility to present professional SSB members. It is carried out regularly but every time in any urgent condition that SSB members are invited to discuss issues related to products and services that will be and have been offered in the field."

The intensity of the invitation indicates the critical role of the SSB. The presence of SSB members is the responsibility of the financial sharia institutions. Some arguments supporting the existence of SSB in the sharia financial institutions include regulation No. 21 Year 2001 regarding sharia banking. Chapter 32 (1) mentions that the SSB is subject to be established by the Sharia and conventional banks, which have shariah business units. Second, the decree of Islamic ulema council No: Kep-754/MUI/II/1999 regarding the formation of NSAB. On its structural organization is mentioned one of the institutions, NASB of Islamic ulema council with internal and external instruments. SSB is one of the external elements of NASB of the Islamic ulema council in addition to the Sharia advisor, committee, and experts. Third, Islamic jurisprudence reference: "Mā lā yatimm al-wājib illa bihi fahuwa wājib" (It is permissible to carry out tasks with any feasible means) (Hadi, 2013). In this regard, the sharia banks cannot operate without SSB. Hence, their presence is mandatory.

The caveats above indicate that the presence of SSB in the sharia banks has a legitimate foundation from the lens of Islamic jurisprudence or state laws in Indonesia. This board is a monitoring body within the Sharia banks known as the shari'a committee or shari'a council. Each country has different members despite having similar roles and tasks (Koran Republika, 2007).

Fanani (2021) also opined:

"SSB has two primary tasks, monitoring, and advice on the aspect of sharia. Thus, if the board members discuss the salary the employees should gain, they go beyond their roles because this illustrates their position as an employment agent. The monitoring tasks are divided into two, monitoring on the operational and products of the banks."

Therefore, a member of SSB must be knowledgeable in sharia matters. For this reason, SSB can give opinions on sharia products. This accords with what Arifin (2006) claims that there

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are three roles of SSB, namely (a) as an advisor to the directions, heads of units and branches of the sharia banks; (b) as a mediator between the banks and NASB regarding the recommendation of products and services that require Fatwa; (c) as a representative of NASB in the sharia banks. SSB is obliged to report the progress of the business activities of the sharia banks to the NASB at least twice a year.

The primary role of the ulema or Islamic clerics in the SSB is to monitor the day-to-day operation of sharia banks in accordance with the sharia principles because the transaction in the sharia banks is distinctive and different from that of other conventional banks (Antonio, 2001). Consequently, NASB is required to provide guidelines.

SSB should regularly disclose that the sharia banks under their supervision have run well according to the sharia law. This should be included in the annual report of the banks. Another SSB task includes researching and recommending new products to the banks. This portrays that SSB is primarily responsible for specific products before gaining Fatwa of NASB (Antonio, 2001).

The following excerpt illustrates the case of monitoring tasks of SSB in Bank NTB Syariah as described by Munawar (2001):

"When customers want to proceed finance through murabahah (cost-plus financing), which is thought more ideal because they need the possession of certain properties.

However, because they lack the budget to purchase the properties, the banks offer Musyarakah Mutanaqisah (MMQ). With this MMQ contract, the client's monthly deposit will lessen the collaboration between the customer and the bank and the customer's ownership stake. The asset will ultimately become the customer's property. The transaction has been proceeding under the amended contract. However, due to inattention, bank personnel sometimes fail to update the application letter. Therefore, following the contract, SSB suggests amending the application letter immediately to MMQ financing rather than Murabaha financing."

In the preceding scenario, the neglect is modest, as it will have legal repercussions and may pose a legal risk due to inconsistencies between the submission letter and the contract's execution. Meanwhile, the legal risk is extremely severe because it can affect a court case.

Moreover, Munawar (2021) mentioned an additional instance of his supervision as follows:

"A customer signs up a financing ceiling of one hundred million rupiahs, and a two percent margin is established. When funding disbursement, the customer must pay administrative and insurance fees. Customers frequently request that the bank lower administrative and insurance costs by two percent to minimize the financing money received. Therefore, this practice contradicts Sharia standards because it falls under the sub hat category."

Step I:		
Mitigating two tasks of SSB as plus tasks (supervisory and training tasks)	Monitoring	Off-site supervision On-site supervision
	Coaching	Through congregation Through financial training Through Friday preaching

Secondary Role: Coaching

In coaching the bank personnel, TGH Maliki Samiun (2021) asserted that:

"The SSB also provides religious guidance regarding matters unrelated to banking products, such as dress and speech etiquette." In this second context, the SBB invitation was extended in their capacity as ulemas or Islamic clerics. They are permitted to coach NTBS Bank employees in various ways, including how to dress appropriately, communicate effectively with customers, and, more generally, construct an efficient and effective administrative system to achieve professional and responsible administration."

Munawwar (2021) also conveyed the same statement,

"The main tasks of SSB regulated by NSAB are coaching, supervision, and monitoring."

In relation to this coaching assignment, explaining the Sharia aspect of executing a Sharia contract is necessary. In Murabaha bil wakalah, for instance, the customer must submit a receipt to the bank before the sale and purchase contract (murabahah) is executed to ensure that the bank customer has completed the goods purchase transaction. The Financial Services Authority (FSA) once criticized the NTBS for lacking a clear date and concrete evidence that goods were purchased for the Islamic banking party. This action was taken to address the FSA's

concerns regarding Islamic banks' use of wakalah (legal contract).

On the one hand, wakalah is used to make it easier for customers to purchase and select goods that are more in line with their needs and can be more cost-effective. Nevertheless, the use of wakalah frequently gives the impression that this is a trick to allow additional (margin) from buying and selling, which some customers equate to bank interest. Not to mention, unless the receipt is not submitted, this raises additional questions as to whether the customer has purchased the goods as per the contract. According to TGH Rubai Munawar (2021), throughout each report submitted by SSB to the NSAB and FSA, recommendations to reduce the use of wakalah in murabahah are always included.

Moreover, Munawar (2021) elaborated:

"The murabahah case without wakalah occurred at BNTBS in 2021, specifically at the KCP Kediri, involving the purchase of an Expander Cross automobile for a customer named HL. Muhayat" (Secretary of the Qomarul Huda Bagu Foundation). Abu Muhammad Dwiono provided a favorable response to this case (a former employee of a Sharia bank from Jambi, Sumatra). Dwiono stated, "It turns out there are still Islamic banks that can execute murabahah contracts, just as I did at BNI Syariah."

It is possible in Islamic banks, which are truly blessed. The case then raises pros and cons among practitioners of Islamic

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banking. According to Fanani (2021), this topic must be studied from multiple perspectives, including positive legal aspects regarding the proof of financing facilities, taxation, and risk considerations. Raharjo (Director of BNTBS, 2021) explained that the financing and Sharia principles had been adhered to properly. Both aspects were analyzed in accordance with the NSAB fatwa, and the SSB was asked for its opinion. In its implementation, customers expect to utilize *murahabah* under their acknowledged rules, such as not including *wakalah* during transactions. Thus, following the purchase (down payment to the bank), the bank purchases the item from the dealer and then transfers it to the customer. Sharia law recognizes the legality of the transaction in question, including its contracts, taxation, and loss insurance.

Agustianto (2004) states that SSB must become SSB Plus by serving in a role other than that of a supervisor, such as providing guidance and education, which is highly related to what is happening in the NTBS. TGH. Rubai Munawwar and TGH. Maliki Samiun are the members of BNTBS' SSB. Both are Islamic boarding school preachers and administrators in East and Central Lombok.

If the SSB pursues this strategic work, it will significantly impact asset growth and turnover in the Islamic banks it supervises. Preachers who use a spiritual and rational *da'wah* approach will more effectively convince people to join Islamic banks. As a result, SSB Plus is required. SSB Plus refers to a role that oversees the operational aspects of Islamic banks with sufficient economic and banking knowledge and acts as an agency for Islamic banks. The SSB (ulama) who are used to lecturing among the people, must make Islamic banks the topic of their preachings. Agustianto (2004).

What several Sharia NTB banks' SSBs have done has been included in the SSB plus category, as described above. This is due to their extensive experience in education, both in Islamic

boarding schools and in the *da'wah majlis* (Islamic congregation) that they lead directly. Moreover, they are frequently invited to PHBI events such as Maulid (Prophet birthday celebration) *dan*, Isra' Mi'raj, and Nuzul Qur'an.

The members of SSB also play an essential role in the socialization and education of the people as Munawar (2021) asserted:

"Our position as administrators and preachers at Islamic boarding schools has made it easier to spread Islamic banking literacy." However, delivering the material to Islamic banks is linked to efforts to shift the community's mindset away from conventional banks and toward Islamic banks. This is, of course, not easy. They constantly mistake Islamic banks for traditional banks. As a result, extra profound socialization in the community, mainly through preaching."

Based on the explanation above, SSB is influential in carrying out its primary responsibilities as a supervisor and catalyst in accelerating Islamic banks' development. There has been mutually beneficial cooperation in this context (mutualism). Maximizing SSB's secondary role as a catalyst in grounding or socializing Islamic bank products is an ideal chance. Agustianto (2004) pointed out that SSB members must be productive by attending meetings, supervising activities, issuing fatwas, and assisting in socializing and educating those who do not yet comprehend the benefits, distinctions, and operating processes of Islamic banks. The qualified members of the supervisory board must possess these characteristics to successfully promote the growth and development of the concerned Islamic banks (Agustianto, 2004). Consequently, SSB must also be responsible for coaching and marketing Sharia banking products.

The table beneath illustrates the roles and responsibilities of SSB:

Monitoring Role	Primary Role	Additional Role	Final Accomplishment
Monitoring activities are essential for Islamic banks to achieve public trust and prevent various hazards, particularly reputational and compliance-related issues.	Supervise sharia compliance	Provide coaching session	Once those two tasks are completed correctly, SSB Plus plays a vital role in determining the level of credibility of Islamic banks, the main element in creating sharia compliance guarantees, and one of the main pillars in the implementation of GCG in Islamic banks.
		Assist socialization	
		Facilitate education	
		Promoting Islamic bank marketing	

The SSB's roles in the two previously mentioned functions can also be linked to implementing Islamic banking governance (GCG). Its role in implementing good corporate governance in Islamic banks includes controlling, assessing, and supervising activities at Islamic financial institutions to ensure compliance with Sharia principles and rules. Additionally, SSB must promote and educate the public through community-based media such as preaching (Faozan, 2013).

SSB main reference in product supervision at Bank NTB Syariah

Munawar (2021) responded to the question as to whether Fatwa is the only reference:

"SSB consistently refers to the Fatwa issued by the National

Sharia Advisory Board (NSAB). Thus, the NSAB fatwa is essentially the only reference, but the SSB members' interpretation emerges if there is ambiguity. This interpretation is never made arbitrarily, but always in accordance with the requirements of Islamic law. We interpret certain things based on the actual conditions on the ground."

Jihad (2021) stated that the rules of *ushul fiqh* and Islamic legal standards are employed as a benchmark in replacement of the Fatwa of the NSAB as far as they have not been issued. The NSAB's Fatwa must be applied to Islamic financial products. However, if something is novel and urgent, *ijtihad* or establishing the SSB should be utilized. However, if the time remains lengthy, one must request a fatwa from the NSAB." The National Sharia Advisory Board (NSAB-IUC) is an independent institution with authority over Islamic financial law. NSAB-IUC serves as an

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institution with the power to issue fatwas concerning the various products of Sharia Financial Institutions (SFI), particularly Islamic banks (Hadi, 2013). Therefore, SSB must be owned by every bank that operates under sharia principles, where SSB is an independent institution established by the NSAB, and SSB must adhere to the Fatwa issued by the NSAB (Hadi, 2013).

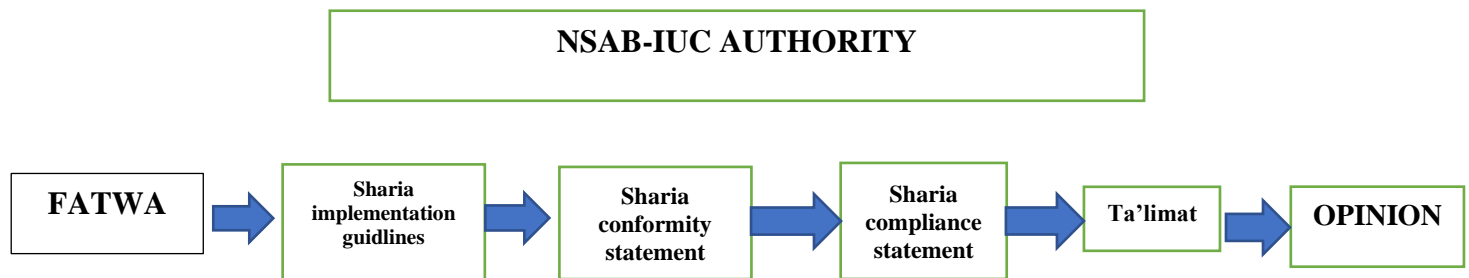
In certain instances, they interpret themselves in accordance with actual field conditions. In other words, if there is ambiguity, the SSB members will interpret the cases. This interpretation is always carried out following established Islamic law standards. If something is new and it is essential to employ *ijtihad* or creation from the SSB, they must request a fatwa from the SSB. For instance, an SSB fatwa already applies in the case of multi-service financing products. However, it also employs the concept of multi-contract, as it rarely stands alone. Consequently, a transaction uses many principles or contracts.

Similarly, Munawar (2021) claimed that all Islamic banking products now in use have a fatwa. In some situations regarding implementing the fatwa contract, however, it is not specified in the Fatwa. For instance, the *murabahah* contract is governed by Fatwa No. 04/NSAB-IUC/IV/2000 on *murabahah*. However, this Fatwa does not clarify the authority to deduct administrative and insurance costs from the financing ceiling. Consequently, SSB adheres to trading activities in *fiqh mu'amalah*, namely that the price must be fixed (*tsamanun ma'lum*). When such purchase

price deviates from the ceiling price, there is pricing ambiguity between the ceiling price and the price following administrative and insurance charges are deducted.

In the SSB nomenclature, the substance of the treatment of Islamic bank products is governed in this manner. At least in this instance, it can be divided into four categories: First, the content of a fatwa can be discovered in a more technical fatwa, such as one on *murabaha*. Second, Sharia implementation guidelines, namely instructions for further expanding particular fatwas to prevent multiple interpretations in Sharia Financial Institutions. Third, the statement of Sharia conformity, specifically the NSAB-IUC statement to the authorities, SFI, SBI, and SEI stating that the contract, product, and/or institution complies with the NSAB-IUC Fatwa. Fourth, the statement of Sharia alignment, namely the statement of the NSAB-IUC before the related Fatwa is issued, to the authorities of SFI, SBI and SEI stating that the contract, product, or institution complies with the NSAB-IUC Fatwa. In addition, the SSB must issue a viewpoint. Sharia Opinion refers to the SSB's opinion regarding a contract and/or the activities of SFI, SBI, and other SEI, based on requests or findings from the institutions it supervises. 2019 (NSAB-IUC Team). Opinions are also a response to issues for which the NSAB-IUC Fatwa does not provide a clear legal status. The following diagram illustrates the distinction between fatwas and opinions:

Scope of Fatwa and Opinion



Adjusting to the NSAB-IUC Fatwa is an indisputable provision. According to Widyaningsih, the duties of NSAB include: (1) observing NSAB fatwas; (2) supervising the business activities of Sharia Financial Institutions to ensure that they do not deviate from the sharia provisions and principles decreed by NSAB; and (3) reporting to NSAB at least twice a year on the business activities and development of the financial institutions supervises (Widyaningsih, et al., 2005).

Antonio (2001) advocates that the primary responsibility of the ulama on the Sharia Advisory Board is to ensure that the bank's daily operations always follow sharia regulations. This is due to the unique nature of Islamic bank transactions compared to conventional banks. Therefore, codes are required to govern it. The National Sharia Advisory Board implements and approves these regulations (Antonio, 2001).

Munawar (2021) remarked upon the regulation:

"When there is a problem with products that has not been acknowledged, the management of Bank NTBS usually consults with SSB." While issues that have been mentioned in the NSAB fatwa yet are ambiguous, the discussion is always open. Critical issues related to Sharia bank products should be addressed carefully."

The multi-services financing product (*Ijarah*), according to Jihad (2021), is one of the products that frequently causes problems in the community. This Multi-Service product appears to be the subject of an NSAB fatwa. However, multi-service products employ the multi-contract concept, meaning that there are multiple types of contracts in a single transaction. As a result, it is uncommon for a transaction to stand alone with a single contract. Otherwise, several principles or contracts are used in a transaction. According to Edi Susilo (2018), the violations that frequently arise concerning the multi-service financing contract are (1) the amount of *ujrah* (salary) is determined by a percentage and not nominal; (2) the imposition of fines for late payments of salary whose amount does not match the actual expenditure; and (3) if subject to collateral, the collateral execution may not be Shariah-compliant.

A multi-contract is the collection of several contracts in a transaction, whether the contracts are merged or not, which does not cause *jahlah* (unclearness), *gharar* (uncertainty), or *riba*. Because of the texts that prohibit it, both CSEL and the four schools of *fiqh* refuse multi-contracts. CSEL typically restricts the multi-contract area to *al-'uqd al-muta'addidah*. It also prohibits multi-contract transactions that can lead to *riba*. Meanwhile, the Hanafiyyah and Shafi'iyah scholars impose

restrictions on transactions that do not result in *jahlah al-tsaman*, which affects *gharar* transactions.

Meanwhile, Malikiyyah and Hanabilah scholars provide a broad space for multi-contracts that do not lead to the practice of *riba*. CSEL does not recognize the existence of multi-contracts from a legal standpoint. As a result, multi-contracts are invalid according to CSEL, whereas the four *madhhab fiqh* scholars argue that multi-contracts are valid and permitted under Islamic law (Salim, 2018).

A Hybrid Contract, also known as a Multi Akad or *Al-Uqud al-Murakabah*, is a combination of two or more contracts that define the legal position and create rights and obligations for the new contract as a legal result of their combination. One of the hybrid contract models in Islamic banking, the *murabahah* financing model, employs several contracts, including the *murabahah* sale and purchase contract and the *wakalah* contract. The position of the *wakalah* contract in the *murabahah* financing product as a complementary contract differs from the prohibition on multi-contracts. The hybrid contract innovation aims to meet the needs of the Muslim community in the Islamic banking sector today (Yunus, 2019).

In Islamic banking products, several contract development models are used. The model is used following the Fatwa issued by the NSAB-IUC. The NSAB fatwa approves the contract development model in the form of a set of contracts. Multiple contracts (*mujtami'ah*) and multiple contracts (*muta'addidah*) are the two models for contract combination. Multiple contracts (*mujtami'ah*; some *fiqh* experts refer to it as a *murakkabah* contract) are the collection of several contracts in one transaction by accumulating the rights and obligations of the contract and the legal consequences of one transaction. *Murâbahah*, *sharia* letters of credit, *sharia* cards (*sharia* cards), *mudhârabah musyarakah*, and *musyarakah mutanâqishah* are examples of multiple contracts (Aryanti & Yosi, 2016).

Alternative Solutions Provided by NSAB for Mitigating Risk

Given that a *Sharia* bank is a public service institution, the presence of SSB should be maximized, not only in product supervision but also in determining the best mitigation or solution to avoid the occurrence of *Sharia* bank risk. Whether there are problems with applying Islamic bank products, one of the solutions the SSB provides in carrying out their duties is always to put forward thinking based on the rules *fiqh* and *ushul fiqh*. Nevertheless, the NSAB has not issued a clear interpretation or *ijtihad*, despite time being of the essence (Jihad, 2021)

Munawar (2021) made aware:

"To mitigate the risks posed by the SSB's minimal role, increase the development of Islamic financial literacy among field implementers, particularly at the implementing level or risk owner. The second approach is to boost active supervision by visiting all existing branch offices."

Given the risk mitigation provided by the SSB, it is critical to properly manage issues, which includes risk minimization, risk transfer, and risk funding. (Fahmi, 2018). When DPS supervision is inadequate, it poses a compliance risk because it fails to implement regulations such as laws and *Sharia* principles. Then, as a result of legal flaws or non-compliance with the terms of the engagement, this compliance risk will

impact other risks, such as legal risk. It will also have an impact on the bank's reputation. When the public disputes such bank's reputation, many customers withdraw large amounts of their savings or deposits, the FSA's operational license is revoked, and the worst-case scenario is that the bank declares bankruptcy.

Dian Pertiwi disclosed that one of the most significant obstacles to adopting risk management in Islamic banking is that the function of SSB is not optimal and must be improved in the future. As a regulator, SSB must be able to offer solutions to the problems in the field regarding implementing Islamic bank products. The proposed remedy must also provide an option to minimize the possible emerging risks. An inadequate SSB role in the practice of *sharia* compliance will result negative view of Islamic banks. This will affect the public's perception and evaluation of Islamic banking, hence influencing public mistrust (Pertiwi, 2019).

Some claimed that *Sharia* banks comply with NSAB fatwas, or that most customers lack *sharia* financial literacy (Jihad, 2021). Even if difficulties arise, they are usually regarded as manageable. The problem in reconciling the provisions of the NSAB law with the demands of consumers and banks frequently manifests as an obvious impediment. Jihad (2021) provided an example of a customer that utilized *murabahah* product with a *wakalah* (representative) model. The NSAB fatwa explicitly states that the representation must be carried out by referring to the initial requirements, typically found in the budget estimate plan. Many clients seek the option to purchase more profitable things that are not included in the budget estimate plan.

This issue must be addressed entirely to satisfy the clients. In addition, the SSB must guarantee that the recommendation adheres to the rules of Islamic law. According to the researcher, such client demand is somewhat logical, as it is possible that when the BEP (Budget Estimate Plan) is produced, the commodities to be purchased at a best price will be those in the BEP. However, the most lucrative products may have changed to other products due to the advances. Therefore, *ijtihad* from the SSB is required to unravel the "tangled thread" in this context. According to the author, adjustments to the purchased products must be made before signing the contract with the bank or by restructuring the agreement.

Compliance risk management is highly prone to the ineffective supervision function of the SSB. The resulting compliance risk influences public skepticism of Islamic banks. Implementing good compliance risk management through fundraising, cash disbursement, and other service operations is one alternative that must be carried out. With adequate compliance risk management in the future, it is expected that this will impact public trust, hence increasing the number of Islamic banks.

Compliance risk, according to the Indonesian Bankers Association, is the risk that arises when a bank fails to comply with and implement numerous laws from authorities and legislation. Compliance risk occurs as a result of a bank's failure to comply with the applicable rules and regulations or application requirements.

Compliance risk is defined by Bank Indonesia Regulation (BIR) Number 13/23/PBI/2011 as the risk resulting from a bank's failure to comply with and/or apply applicable laws, rules, and *sharia* principles. According to the Basel Committee's definition, compliance risk may also result in financial losses, legal risks, and reputational risks. Regarding this risk, there is no significant distinction between Islamic banks and conventional banks,

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except the Islamic principles inherent to Islamic banks. Therefore, violation of Sharia principles is a component of compliance risk.

Regulation of Bank Indonesia, No: 9/1/PBI/2007 Concerning the Rating System for Commercial Bank Soundness Based on Sharia Principles article 1 point 11, for example, explicitly explains reputation risk. Reputation risk is due to a decrease in the level of stakeholder trust stemming from negative perceptions of the company. Therefore, when SSB actively carries out its supervisory and coaching responsibilities, it will aid in avoiding risks other than compliance risks, including financial, legal, and reputational risks.

Step IV:			
Ensuring the effectiveness of the risk mitigation strategy	Mitigation 1	Mitigation 2	Mitigation 3
	Refer to the Fatwa issued by the NSAB-IUC and the fiqh/ushul fiqh regulations.	Improving Islamic financial literacy by management and SSB	Active supervision by SSB (direct and indirect).

The first and second mitigations are more focused on off-site supervision than others. The third mitigation, meanwhile, leads to on-site monitoring. According to Gandapraja P. et al. (2004), several principles and methods are utilized in bank supervision, including Islamic banking. These include regulation, off-site management, on-site supervision, contact and regular communication with banks, non-remedial and the application of sanctions, and cooperation with other bank supervisory authorities.

Thus, the purpose of SSB's active supervision is to ensure three factors: first, the consistent implementation of sharia compliance; second, the identification of issues that would develop ineffective supervision; and third, to determine the optimal method of risk management for Islamic banks.

Conclusion

The active role of the Sharia Supervisory Board (SSB) in overseeing Islamic bank products is visible in two activities. First, SSB was frequently requested to discuss product issues that would be implemented and had been on sale. It is evident in the quantity of Sharia opinions rendered and the regular direct supervision at branch offices or through random sampling. SSB also has a role in offering broader guidance on areas unrelated to banking products, such as product explanations before contract signing, explanations on dress etiquette, and honest communication with consumers.

Before performing its supervisory duties, the SSB always consults the Fatwa of the National Sharia Advisory Board (NSAB). However, depending on the circumstances, people have different perspectives. Even though the NSAB has mandated all contracts used by Islamic banks, in some cases, the application is not fully stated, necessitating an interpretation by the SSB. This interpretation is always determined by Islamic law norms and existing Islamic laws.

Meanwhile, the Sharia Supervisory Board's (SSB) response and mitigation for a compliance risk are to constantly return to the NSAB-IUC Fatwa and advance reasoning based on the requirements in the Islamic jurisprudence or laws. In addition, the risk is mitigated by improving the development of Islamic financial literacy among field consultants, particularly at the operational or risk owner level, and by enhancing active

Safiullah noted a close relationship between the issues that occur and the level of cost efficiency generated by the bank, which is tied to financial risk. Moreover, the chance that occurs in banks requires banks to minimize risks to prevent more losses, therefore banks must pay for such inefficient cost management. (Safiullah and Shamsuddin, 2019). Alternatively, Islamic banks are governed by an internal mechanism known as the SSB, which ensures that all banking products and transactions adhere to these rules (Mollah and Zaman, 2015).

To ease comprehension of the analysis of different mitigation measures, the following table is provided:

supervision by visiting the branch offices.

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