

Role and Responsibilities of the Sharia Supervisory Council (DPS) at Sharia Finance Bank in Depok City

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ABSTRACT

This study aims to explain the roles and responsibilities of the Sharia supervisory board (DPS) at the Sharia Finance Bank i in Depok City. This research used descriptive qualitative research, with descriptive qualitative analysis using the inductive method. The results of this study indicate that the responsibility of the DPS is not only to submit a report once a semester to Bank Indonesia but also to be accountable for the nature of the BPRS. When the DPS states that the transaction is prohibited and not following Sharia, the BPRS may not do so. It is the essence of the relationship between BPRS and DPS. The level of DPS credibility in terms of performance, independence, and competence hinders the credibility of Islamic banks. The role and function of DPS in Sharia internal supervision must be optimized. According to Sharia, BI's primary responsibility as a regulator is to improve the external environment of DPS by developing an efficient and effective Sharia supervisory mechanism

Keywords: Sharia Supervisory Council, Sharia Finance Bank, Indonesia.

INTRODUCTION

Banking has been known to run by two systems—the conventional bank operating system and an Interest system for its primary operations. Second, the operational system of Islamic banks, also known as Sharia, uses a profit-sharing system for its primary operations. Islamic financial institutions generally have several drawbacks, including the Differentiation of Islamic financial products, which is considered lacking in Indonesia. In this case, there is still a need for product innovation, and it is even said that the products of Islamic financial institutions only imitate conventional financial institutions (Muhammad. 2016).

The independent Sharia Supervisory Board (DPS) consists of Muamalat fiqh experts. On the other hand, the Sharia Supervisory Board may include members who are not fiqh experts but know Islamic financial institutions and Muamalat fiqh. The Sharia Supervisory Board of financial institutions is obliged to direct, review, and supervise the

institution's activities to ensure compliance with Islamic Sharia rules and principles (Anggadini, 2012).

This procedure must be forced because it functions as a medium for education and socialization. To carry out aspects of Sharia compliance, employees of Islamic Banks must be competent and patient. In addition, the Sharia Supervisory Board (DPS) is required to oversee the operations of Islamic banks, especially those related to Sharia compliance. Because professionalism has been an issue of DPS to date, it is hoped that the board or management of Islamic Banks will offer incentives in the form of respectable salaries or honoraria to encourage DPS to do their best (Afrianty, 2018).

Islamic and conventional banks' primary and fundamental difference is their adherence to Sharia. One of the main reasons people choose Islamic banks is the halalness of their products and services and the Islamic banking system that complies with Sharia principles. ³ Also, the contracts used are based on Sharia principles determined by the Sharia Supervisory Board (DPS). This finding results from research conducted in 2000 by Bank Indonesia and several research institutions of state universities on the island of Java regarding society's potential, preferences, and behaviour towards Islamic banks (Efrianto, 2019).

DPS must not only ensure that the business operations of Islamic Banks comply with the regulations issued by the DSN and Sharia principles but also must inform the public about the findings of its supervision and express an opinion that the banks it supervises operate following Sharia principles. Because this is a threat to the national economy and even threatens the success of the Islamic economic movement itself, DPS must not allow violations of Sharia principles to occur, such as the expansion of the Murabahah portion in the Sharia banking portfolio and the large number of sharia financial institutions that continue to use interest (Biasmara et al., 2021).

Following their duties and responsibilities, DPS has the authority to influence Islamic Banks to carry out transactions following Sharia principles through competency and organizational models. DPS can also help Sharia Banks improve the performance of profit-sharing-based financing that reflects Sharia principles, especially the principles of justice, benefit and balance in their activities.

The Sharia Supervisory Board (DPS), an independent internal organization specializing in Sharia compliance supervision, is required for Islamic banks to ensure their operations adhere to Sharia principles. The Sharia Supervisory Board plays an essential role in Islamic banking for three reasons: First, find out how much trust Islamic banks have. Second, it is a significant component in ensuring Sharia compliance. Third is one of the Islamic banks' main pillars to implement Good Corporate Governance (GCG).

The Islamic People's Financing Bank (BPRS) is one component of Islamic banking throughout the archipelago. The Sharia Supervisory Board (DPS) is needed to determine how much Islamic banking in Indonesia adheres to Sharia principles in its banking operations to improve the quality of work of Islamic banks in Indonesia. In addition, the

Sharia Supervisory Board (DPS) can guarantee that every bank activity follows Sharia law.

According to Isnaini (2018), the primary responsibility of DPS is to ensure that the bank's daily operations are carried out following sharia. In other words, DPS is an integral part of the success of Islamic banks. It will be very worrying if there are still many Sharia banking practices that deviate from the provisions of Islamic Sharia, so the role and function of DPS must be truly optimized.

METHOD

This study uses a qualitative method with a descriptive approach. The research uses data from literature studies. Descriptive analysis is used to explain the data that has been collected from various literature.

RESULT AND DISCUSSION

DPS Roles and Responsibilities

The internal Sharia review, conducted by the internal auditors to assess the compliance of the Sharia bank with the principles and rules of Sharia, will assist the DPS in discharging its responsibilities. The Sharia supervisory board will instruct internal auditors to conduct an internal Sharia review and present the results of their assessment and testing to the board. In this case, the internal auditor bridges the communication between DPS and management to control all bank activities and comply with Sharia law.

The following is a more in-depth description of their responsibilities and authorities. First, provide guidelines and outlines for using funds and other bank activities following sharia. Second, make adjustments if a product being implemented is suspected of conflicting with Sharia law. In the end, the third responds to questions raised by the executive and operational in the form of a fatwa. Forth, check the annual report book and make a statement about how all products and operations in the current year follow Sharia law.

The primary responsibility of DPS is to act as a mediator between Islamic financial institutions and directors, heads of Sharia business units, and heads of Sharia branch offices on matters relating to Sharia aspects and to communicate proposals and suggestions for the development of products and services from sharia financial institutions that require review and fatwa.

As a follow-up to the mandate of Ijtima' Sanawi (Annual Meeting) of the First DPS in Jakarta on 8-11 September 2004, regarding guidelines for Sharia supervision and procedures for reporting the results of supervision for the Sharia supervisory board as guidelines for the implementation of duties, authorities and responsibilities of DPS for banking sharia, the DPS is responsible for submitting periodic sharia supervision reports related to the duties of the DPS. In order to become a minimum reference for members of the DPS in carrying out the Sharia supervisory function of the operational activities of Sharia banks, guidelines for Sharia supervision and procedures for reporting the results

of supervision are prepared for the supervisory board Sharia (Pradipta et al., 2016). According to the definition provided in the annexe to Bank Indonesia regulations, DPS is an autonomous body that oversees Islamic banks' business activities per Sharia law. DPS is affiliated with a bank and is part of a bank.

DPS Authority

The Sharia Supervisory Board (DPS) has the authority to determine whether a product from the BPRS it supervises is permissible (halal) or prohibited (haram) for sale to customers and the general public. The DPS can also determine the legal status of the product. DPS refers to the DSN-MUI fatwa giving legal status; if a new product does not have a fatwa, the DPS will ask the DSN-MUI for a fatwa.

It indicates that the DPS can create new products that do not yet exist but still require a fatwa from the DSN-MUI to produce them. Examine Bank Indonesia Regulation No. 6/17/PBI/2004, issued on 1 July 2004, and Bank Indonesia Regulation No. 6/24/PBI/2004, respectively, issued on 14 October 2004, concerning Commercial Banks conducting business activities based on Sharia principles.

According to these regulations, the Sharia Supervisory Board (DPS) is responsible, among other things, for ensuring and supervising the suitability of bank operations against fatwas issued by the National Sharia Council (DSN), evaluating sharia aspects of bank operational guidelines and their products, providing opinions from sharia aspects on implementation bank operations as a whole in bank publication reports, reviewing new products and services that do not yet have a fatwa to request a fatwa from the DSN (Usnah et al., 2015).

The DPS supervises the BPRS under the authority of the DPS BPRS Depok City. DPS supervision in the field still needs improvement or could be more optimal. It is caused by communication between DPS and BPRS, which is still problematic. As a result, the arrival of DPS to BPRS to carry out supervision could be more optimal (Nasution et al., 2019).

Oversight Mechanism of the Sharia Supervisory Board (DPS) for Islamic People's Financing Banks (BPRS)

Islamic banking is unique because the management structure of the banking industry includes scholars. In determining and overseeing the application of Sharia principles in banking, scholars who know Sharia law and banking applications play a significant role. DPS members must also know banking economics and sharia muamalah experts. In this case, Sharia Banks have appointed DPS members based on the results of the general meeting of shareholders and directors.

The Sharia Supervisory Board must comply with the BPRS fatwa in its daily duties. The BPRS is the highest authority in issuing fatwas concerning the conformity of bank products and services with Sharia provisions and principles. The main responsibility of DPS is to ensure that the bank's business activities do not deviate from Sharia provisions issued by the BPRS. In Sharia banking institutions, DPS plays a strategic role in carrying out Sharia principles.

The Fatwa of the National Sharia Council of the Indonesian Ulema Council (DSN-MUI) and the activities of the Sharia Supervisory Board in carrying out supervision at various BPRS in Depok City indeed refer to the applicable Bank Indonesia Regulations (PBI) and specifically to carry out supervision of BPRS sharia, both from the perspective of contracts, transactions, and products. DPS oversight is generally divided into two categories: Internal and external oversight. Internal oversight is the essential form of DPS oversight. It is because it relates to the credibility of the BPRS that it oversees.

Bank Indonesia Regulation Products specify how to carry out supervisory responsibilities. Most of the material in banking regulations directing the implementation of the precautionary principle is contained in Bank Indonesia Regulations. The purpose of these provisions is to indicate to banking service providers to carry out their business activities to create a sound banking system.

The Sharia Supervisory Board consists of economists and religious scholars specializing in fiqh muhammara (Islamic et al.). Its mission is to ensure the bank's operations and products comply with Islamic law. The Sharia Supervisory Board (DPS) must carefully examine Islamic financial institutions' contract formats. Regarding BPRS, DPS oversees contracts, transactions and operations with customers and third parties. Therefore, the Sharia Supervisory Board must thoroughly oversee all the BPRS they supervise (Nurhasanah, 2011).

The supervision carried out by the Sharia Supervisory Board is, of course, greatly influenced by the existence of the Sharia Supervisory Board in the BPRS. The level of regular DPS attendance at the BPRS will undoubtedly be maximized so that the BPRS can be supervised and supervised effectively and honestly transform into a "sharia" sharia financial institution. In addition, the way DPS is involved with the BPRS is influenced by the existence of the DPS in the BPRS. DPS is not too involved, especially concerning transactions and activities of BPRS in general. It is very worrying about the possibility of Sharia BPRS irregularities (Suryani. (2012).

Regarding accountability, DPS is fully responsible for all BPRS activities. The responsibility of DPS is not only to submit a report once a semester to Bank Indonesia but also to be accountable for the nature of the BPRS. When the DPS states that the transaction is prohibited and not following Sharia, the BPRS may not do so. It is the essence of the relationship between BPRS and DPS. On the other hand, the BPRS can carry out transactions properly if the DPS states that the transaction is following Sharia.

The information presented above is the obligation of DPS to BPRS. Even though we know that leadership in a BPRS consists of a Board of Directors and a Board of Commissioners, the DPS is a Sharia leader. In essence, the Directors' and Commissioners' responsibility is to advance the company to become more developed and generate more profits. However, the DPS bears the most significant responsibility of all. DPS must respond to BI because of its reporting obligations and the responsibility to the hereafter (Allah SWT). Following BPRS sharia, DPS must report and account for its work. DPS

must be held accountable in advance if there are BPRS that, according to BI, violate Sharia law (Oktarina, 2016).

CONCLUSION

The Sharia Supervisory Board (DPS), based on the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI), sets standards for the composition of the DPS as well as related aspects such as regulations, reports and other matters. These standards stipulate that an Islamic institution must be an independent body of experts in Islamic law and science. Other specialists with scientific knowledge of Islamic law relating to commercial transactions can also form DPS in Islamic financial institutions. To ensure that Islamic financial institutions comply with Sharia rules and principles, the DPS is tasked with directing, inspecting and supervising their operations. The level of DPS credibility in terms of performance, independence, and competence determines the credibility of Islamic banks. In order to build Sharia compliance guarantees for all stakeholders of Islamic banks in Indonesia, the role and function of DPS in Sharia internal supervision must be optimized. Improving the DPS's external and internal environment is the first step to optimizing the role and function of the DPS in Sharia internal supervision. According to Sharia, BI's primary responsibility as a regulator is to improve the external environment of DPS by developing an efficient and effective Sharia supervisory mechanism. On the other hand, DPS and Islamic bank management are responsible for creating an efficient and effective Sharia compliance guarantee system to increase public trust in Sharia banks.

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