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Do we need a Sharia Supervisory Board in every Islamic bank?

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Abstract

Sharia compliance is crucial for Islamic Financial Institutions, so SSB an important element is the existence. The SSB is tasked with providing advice and suggestions to the directors as well as supervising and making decisions, policies related to bank activities so that they comply with sharia principles. The amount of remuneration in several banks is a problem in this research, so is it really necessary to have SSB in every bank, will the DSN not be enough? Remuneration can be allocated as an additional financing fund for debtors. This paper examines the relationship between SSB effectiveness, their remuneration, asset efficiency. Using a quantitative descriptive method, the Common Effect Model CEM as a model and form of dummy variable cross section data. The results that can be drawn from this study are the SSB remuneration, the number of members of the SSB, the total number of meetings held and the size of the assets have a significant effect on financing. Even though the percentage of remuneration in several banks is not reasonable, the role of SSB in each bank is still very much needed according to their roles and obligations.

Keywords: *Sharia Supervisory Board; National Sharia Board; Islamic Bank; Financial Services Authority (OJK); Financing.*

Abstrak

Kepatuhan Syariah hal yang krusial bagi LKS, maka elemen penting dalam LKS adalah adanya Dewan Pengawas Syariah. DPS bertugas memberikan nasihat dan saran kepada direksi serta mengawasi dan memberikan keputusan, kebijakan terkait kegiatan bank agar sesuai dengan prinsip syariah. Besarnya remunerasi di beberapa bank menjadi permasalahan dalam penelitian ini, sehingga apakah sangat diperlukan adanya DPS disetiap bank, akankah tidak cukup dengan adanya DSN. Remunerasi dapat dialokasikan sebagai tambahan dana pembiayaan bagi debitur. Makalah ini mengkaji hubungan antara efektivitas dan remunerasi DPS, dengan melihat efisiensi efisiensi aset. Menggunakan metode deskriptif kuantitatif, Common Effect Model CEM sebagai model dan bentuk data cross section dummy variabel. Hasil yang dapat diambil dari penelitian ini adalah Remunerasi DPS, jumlah anggota DPS, total banyak pertemuan yang dilakukan serta besar aset berpengaruh signifikan terhadap *pembiayaan. Meskipun dalam bersar persenan remunerasi di beberapa bank tidak wajar, peran DPS disetiap bank masih sangat dibutuhkan sesuai peran dan kewajiban mereka.*

Kata Kunci: *Dewan Pengawas Syariah; Dewan Syariah Nasional; Bank Syariah; OJK; Pembiayaan.*

INTRODUCTION

In the economy of all countries, including Indonesia, banks have a very important role. Among its functions are solving the problem of informational asymmetries. Between one party and another, there will always be an information gap, and this problem cannot be ignored. Because the effect of these problems is that there will always be a party who take benefits above the party who receives a loss. In the economy those who have more information, use that information for their personal interests (Leland & Pyle, 1977). Furthermore, banks also act as intermediaries. Financial intermediaries allow for better use of contracts and allow for pareto superior allocation, a condition that occurs when resources are allocated in such a way that it is impossible to make one person better off without making another person worse off (Diamond, 1984). Credit distribution has become an important role for banks for the community and economic mobilization providing facilities for economic growth, in addition to solving the main problem of informational asymmetries (Siringoringo, 2012). At the macro level, banks exist as tools in setting monetary policy, and become a source of financing for big companies, while SMEs and individual entrepreneurs is the scope of banks at the micro level (Koch & MacDonald, 2014).

The first official Islamic commercial bank was established in 1991, which was initiated by the Indonesian Ulema Council (MUI), namely Bank Muamalat Indonesia. Islamic and conventional bank generally, do not have significant difference that both are financial intermediary institutions, but there are some special characteristics possessed by Islamic banks. It is that Islamic bank product and transaction mechanism do not conflict with sharia principles. Sharia principles that are principal and will not change, because they are sourced from the Qur'an and the Prophetic tradition and in one of the principals mentioned that all forms of muamalah are permissible unless there are arguments that forbid it (Prasetyo, 2017). However, some researcher says that Islamic and conventional banking have different characteristics. Islamic banks are intermediary with the profit and loss sharing. Meanwhile, conventional banks are intermediary with debt basis and allow for risk transfer (Archer & Karim, 2012). Apart from the product and transaction mechanism, another characteristic of Islamic banks is the existence of a Sharia Supervisory Board (SSB). SSB is responsible for carrying out ex ante and ex post audits to provide supervision whether Islamic banks are operating in accordance with sharia compliance including its product and transaction (Rini, 2014).

Islamic financial have incredible potential to ideally adjust assets according to the financial, monetary and social needs of society (Taufiq et al., 2021). Besides that Islamic finance continues to gain regional and international popularity among both Muslim and non-Muslim countries. Islamic financial institutions (IFIs) differ from their conventional counterparts in structure and governance. It is very important for IFSs to maintain Sharia compliance in all its product and transaction. Therefore, an important element in IFSs is the Sharia Supervisory Board (SSB) and the sharia governance (Al Mannai & Ahmed, 2019). In research (Karim, 1990) and (Briston & El-Ashker, 1986). they said that to ensure that Islamic banks comply with Shariah compliance, every bank must have a Shariah Supervisory Board. SSB as the board in charge of providing advice and suggestions to the other Board of Directors as well as supervising and providing decisions, policies related to the bank's activities to comply with sharia principles (Alam et al., 2019). The policies are in an effort to improve the development of the Islamic economy and the efficiency of Islamic banks performance. The Indonesian government through the Ministry of State-Owned Enterprises (BUMN) has recently decided to conduct a merger between BRI Syariah, Bank Syariah Mandiri and BNI Syariah on February 1, 2021. The merger of the three banks had an impact on various aspects, customers, employees (Ulfa, 2021). Looking at the merger of three state-owned banks, is it possible to combine SSB in each Islamic bank for efficiency and remuneration savings. This paper examines the relationship between the effectiveness of Sharia Supervisory Boards (SSB), their remuneration in Islamic bank financing.

LITERATURE REVIEW

Islamic Bank

Solving the problem of *informational asymmetries* is of bank role and function. It takes the type of organization or institution that specifically functions to collect and sell information about an asset or investment. It will sell information to borrowers and eliminate the need for financial intermediaries (Dell'Ariccia, 2001). In the loan-funded intermediation banking model, banks receive pre-existing real resource deposits from savers and then lend it to borrowers. In the real world, banks provide financing through money creation, they create new money deposits through loans, limited by profitability and solvency considerations (Jakab & Kumhof, 2015).

In the system, the use of contracts in every transaction is a hallmark of Islamic banks, in contrast to conventional banks. The *nisbah* is a way for Islamic banks to take profits, while conventional banks use the interest. It is clear that both of them are different in the issue of financial principles. Islamic finance principal is design to eliminate interest or *riba*, *maysir*, *gharar* and those are a mandatory for every product in Islamic banks, then transferred by applying *profit and loss sharing* (profit and loss sharing), and funding from bank must be allocated to sharia compliance business or halal products (Purnamasari et al., 2023). What was previously stated, create limitation to innovate and movement of Islamic bank, according to some scholars. This limitation is due to the existence of Islamic Sharia regulations. One of the reasons why Islamic banks market share is considered smaller than its conventional counterparts. Conventional banks are considered capable of engaging in various segments. However, in retrospect, the two are different when examined through the lens of religion, while both will be the same if examined from an economic point of view (Beck et al., 2013). The special reason for this situation is that Islamic finance is based on the real economy, which prohibits interest-based transactions and investments in bad assets such as financial derivatives (Rai, 2022).

One of the keys to surviving in this global economy is profitability. Another characteristic of Islamic bank such is *profit distribution management (PDM),* where PDM is the manager's activity in distributing profits to fulfill the obligations of Islamic banks to customers in terms of profit sharing (Khunaifi & Umam, 2019). Islamic banks are very prominent with the agreement or contract agreement in advance with the customer namely *akad*. Various kinds of existing contracts, become one of the differentiations of Islamic banks. The profit-sharing agreement between Islamic banks and customers must be made prior to the contract, including the profit-sharing percentage that must be in accordance with the agreement, without any element of coercion (Mulyo & Siti, 2012).

Research (Sundararajan, 2007) in the journal (Farook et al., 2012) takes a sample of Islamic banks that carry out PDM referring to interest rates and change *management fees* from managing PDM. The PDM action is based on the strong relationship between market interest rates and the distribution of profit sharing for depositors, as well as the finding of an insignificant relationship between *asset returns* and profit-sharing distributions. (Farook et al., 2012) examining PDM which refers to interest rates in Islamic banks in several countries, they find that some Islamic banks have a high average PDM. Some Islamic banks use the PDM reference to interest rates which is also applied in conventional banks as a decision taken, this is most likely due to market segmentation and moral hazard.

Sharia Governance

Corporate governance in Islamic Financial Institutions is different from that found in their conventional counterparts. Governance practices play an important role in ensuring that Islamic financial institutions are run in a prudent and sound manner. Any lack of trust in Islamic finance has the potential to create severe economic dysfunction, adversely affecting the communities in which they operate (Arwani, 2018).

Good relationships between company managers, directors and equity providers for individuals and institutions that hold and allocate capital for investment are a must in corporate governance. This is to ensure that the board of directors is responsible for the company's targets and objectives, that the company complies with laws and regulations. Although the scope of governance of Islamic financial institutions is larger than that of conventional financial institutions in general, the overall concept of governance is the same.

Islamic financial institutions adhere to the highest fiduciary standards as they are not only accountable to the equity holders who appoint them but are also responsible for the safety of all key stakeholders and the communities that the financial institution serves. Governance practices in Islamic financial institutions are also expected to lead to increased sharia compliance in each institution (Institutions, 2006). Corporate governance in islamic financial institution is tend to the stakeholder model of corporate goernance (Iqbal & Mirakhor, 2007).

Sharia Supervisory Board

Sharia Supervisory Board is one of the internal governance mechanisms involving in the monitoring of Islamic bank activities in accordance with sharia principal, particularly in its implementation and compliance (Alman, 2012). The CIPA book published by AAOIFI explains that the Sharia Supervisory Board (SSB) consists of qualified sharia scholars (usually three or more) who are appointed by the board of directors or general assembly. They are responsible for directing, reviewing and supervising the activities of IFIs (Islamic financial institutions) for sharia compliance (Indrawaty & Wardayati, 2016) (Institutions, 2006). Another very important role of SSB is making strategic decisions before launching a product in Islamic banking. Therefore, in Islamic banking, the main role of SSB as a *gatekeeper* is to maintain sharia compliance (Rahajeng, 2013).

The main task and concern of SSB is sharia principles, so it cannot be denied that expertise in Islamic law is required for SSB members besides certainly in finance and banking. It will be difficult to determine the halal and haram activities and bank financial products, if the SSB is only competent in Islamic law without understanding finance and banking practices. Islamic banks must demonstrate and raise SSB with the main competence of fiqh muamalah. According to research, Islamic financial institution experts, financial or banking experts with knowledge of muamalah fiqh, need to be promoted. Related to the existing CSR, Islamic banks with competent SSB in finance and banking will carry out better CSR (Indrawaty & Wardayati, 2016). Because sharia governance is part of corporate governance, a good and effective SSB must reflect the issues of independence, transparency, accountability, responsibility and fairness (Bhatti & Bhatti, 2010) (Rahajeng, 2013). Because, with the achievement of Sharia and good corporate governance, Islamic banks can basically achieve the goals of sharia compliance which is *maqashid sharia* (Waemustafa, 2016).

The Supervision of Islamic Banking in Practice

There are generally two kinds of IB supervision, separate and single supervision models, the suitability of the model depending on the needs and circumstances of the country. Authorities should aim to carry out the operational independence of supervisory bodies appropriately and supported by adequate resources, sound legitimacy, proper governance structures and good accountability in practice. This will be more valuable when compared to just focusing on the right supervisory structure (Archer & Karim, 2012).

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Supervisor Duties:

a. Continue to adapt the CAMELS rating system to the risks associated with IB, particularly regarding capital adequacy, asset quality, management and liquidity.
b. Using stress testing techniques that consider the specifics of IB risk.
c. Implement strict controls and increase oversight in jurisdictions where Islamic perspective operate to help reduce risks associated with Shariah compliance and provide adequate consumer protection.
d. Help ensure implementation of enhanced transparency and disclosure requirements, including by developing FSIs for IBs.
e. Strengthen supervisory capacity on IB-related issues.
f. Increase their focus on cross-border and consolidated surveillance.

RESEARCH METHODOLOGY

Library research approach is a quantitative method used in this research. Describe the theoretical analysis, provide input and overview of scientific studies, literature related to this research (Hikmawati, 2020). Secondary data as the type of data taken from this research, data comes from literature and data from seven Islamic banks which are included in National Private Commercial Banks and Regional Development Banks in the Financial Services (Otoritas Jasa Keuangan, 2021). Bank BCA Syariah (BCAS) (Tahunan, 2020a), Bank Muamalat (BM) (Bank Muamalat 2020, 2020), Bank Syariah Indonesia (BNIS, BSM, BRIS) (www.bsi, 2020) (Bank Syariah Mandiri, 2020) (BRIsyariah, 2020), Bank Victoria Syariah (BVS) (Tahunan, 2020b), Bank Bukopin Syariah (BBS) (PTPerkebunanNusantara, 2020). The data is in the form of financial reports from selected banks which are used to see the efficiency of each bank's assets and the total financing or remuneration of the Sharia Supervisory Board. The literature material that has been collected is then reviewed, as well as material for evaluation and consideration for sharia banking regulators, both BI and OJK.

RESULTS AND DISCUSSION

This study uses the Common Effect Model CEM as the most suitable model for use in the form of dummy variable cross section data, on the grounds that the number of cross section units (N = 7) is greater than the number of time series units (T = 5).

This study uses the following equation:

$$MODE_i = \alpha + \beta_1\, SSBREMU_1 + \beta_2\, TA_2 + \beta_3\, M2_3 + \beta_4\, JDPS_4 + \beta_5\, JRDPS_5 + \varepsilon_i$$

Alpha = 5% or 0.05
df = (n-JV)
= 35 – 6
= 29
t-table = 1.699

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Table 1
Measurement of Explanatory Variables

Variable		Composition of variaables
MODE	:	*Murabahah, mudharabah, and musyarakah* (financing) to total finance
SSBREMU	:	Log of total remuneration
TA	:	Log of total assets
M2	:	Demand Deposits, saving, time deposits
JDPS	:	Total SSB members
JRDPS	:	Total meeting SSB
ε	:	Error term

Table 2
Common Effect Model CEM/OLS/PLS

MODE	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
SSBREMU	3.262	26.582	0.12	.903	-51.105	57.629	
TA	-.326	.095	-3.43	.002	-.521	-.132	***
M2	1.312	.129	10.19	0	1.049	1.576	***
JDPS	2.281	23.809	0.10	.924	-46.413	50.975	
JRDPS	-1.204	2.278	-0.53	.601	-5.864	3.455	
Constant	10.477	70.176	0.15	.882	-133.049	154.004	

Mean dependent var	693.217	SD dependent var	1711.932
R-squared	0.998	Number of obs	35
F-test	3342.782	Prob > F	0.000
Akaike crit. (AIC)	408.942	Bayesian crit. (BIC)	418.274

*** *p*<.01, ** *p*<.05, * *p*<.1

Probability value for F statistics with a value of 0.0000 which means less than 5%. The F value is carried out to see whether simultaneously or in general the model can be used or not, because the value of the F probability is less than 5%, it can be concluded that the model can be used or simultaneously. Variations of X1, X2, X3, X4 and X5 in this case are total remuneration, total assets, M2, total SSB members and total SSB meetings have a simultaneous and significant effect on MODE.

The t-statistic value of the total remuneration of SSB 0.903 is less than 1.699 which has a significant effect on financing. Likewise, what happened to total assets (0.002), M2 (0.000), SSB members (0.924) and total SSB meetings (0.601), the t-statistic value is less than 1.699, then total assets, M2, SSB members, and total meetings SSB, has a significant effect on financing.

Referring to the coefficient column shows the causal influence between the independent and dependent variables. Total remuneration (3,262), M2 (1,312) and SSB members (2,280) are positive, meaning that total remuneration has a positive effect on financing, the greater the total remuneration, the greater the financing, and vice versa. As for the coefficient of total assets (-0.326) and total meeting SSB (-1.204) which has a minus value, it means that total assets and total meeting SSB have a negative effect on financing or it can be interpreted that the higher the total assets and total meeting SSB, the lower the financing.

The difference between Islamic banks and conventional banks, as we know and which has been explained in the previous explanation is the existence of a Sharia Supervisory Board. SSB exists to ensure that every sharia financial institution, both in banking and every sharia business unit, can have a standard of belief and in accordance with religious principles, therefore it is mandatory for every sharia financial institution to have a Sharia Supervisory Board (Amani & Muhammad, 2021). The Sharia Supervisory Board according to AAOIFI is a legal entity that has expertise in Islamic commercial jurisprudence (Fiqh Al-mu'amalat), which is independent from the Board of Directors and has the right to attend Board of Directors meetings to verify and ratify the religious aspects of their decisions. Conducting supervisory and consultative review of the operations of its financial institutions to ensure they comply with sharia and issuing fatwas regarding the legitimacy of new investment and finance modes and analyzing whether they are sharia compliant, is the role and function of SSB. Board decisions are binding (Hassan et al., 2019).

The main objectives of the SSB are to guide Islamic banks to establish policies and regulations based on Sharia principles and rules, approve financial transactions from a legitimate perspective, evaluate information and reports such as circulars, operational and financial reports and policies, ensure that all stakeholders of Islamic banks and the public have full access and trust to the bank's annual report (Alman, 2012). The responsibilities of the Sharia Supervisory Board include; establish rules for conducting banking business, ex ante and ex post audits of financial transactions and instruments to ensure their compliance with Sharia, calculation and payment of zakat, disbursement of any receipts or income acquisitions that are not in accordance with sharia principles. provide advice and input regarding the distribution of income for investors and shareholders, and finally SSB must clearly issue a statement whether the bank has run its business in accordance with sharia principles in its annual report (Otoritas Jasa Keuangan, 2017b).

Regarding remuneration or wages for the National Sharia Board or abbreviated as NSB and Sharia Supervisory Board SSB, each has provisions and is stated in the legislation. The Islamic banking committee that assists the central bank in making laws and regulations regarding the fatwas of the national sharia board is borne by the central bank including the budget and costs (Bank Indonesia Regulation No.10/32/PBI/2008). NSB funding for operations is obtained from the government (Ministry of Finance), then Bank Indonesia, and community contributions. Receiving monthly SSB dues from Islamic financial institutions, National Sharia Board (NSB) must be responsible for donations to the Indonesian Ulema Council (Wardhany & Arshad, 2012).

Considering compliance with sharia principles is something that must be done when commercial banks or sharia business units provide remuneration. Remuneration in its definition is a wage or reward that has been determined by regulatory authorities and the central bank even from each financial institution and sharia business unit which is given to all members of the board of directors, board of commissioners, SSB, and employees. Remuneration received can be fixed, or cash, and non-cash, it all depends on what is completed. There are many types of remuneration itself, including fixed and variable remuneration, fixed remuneration is a form of remuneration that is not associated with performance and risk. Basic salary, facilities, housing allowance, health allowance, holiday allowance, and pension fund, are fixed remuneration received by SSB, while variable or non-fixed remuneration is remuneration related to performance and risks, such as bonuses and other things similar to bonuses. The table below will explain the total data on salaries, bonuses, routine allowances, bonuses, and other facilities in the form of non-natura and in-kind that can be owned or which cannot be owned personally by SSB from each sharia banking;

Table 3
SSB Remuneration Percentage of Total Assets

Bank	**Total SSB**	**Remuneration (000.000 Rp)**	***Total Assets (000.000 Rp)**	**% of ***
BCAS	2	1.206.450	329.439.954	0.36
BM	2	698.549	51.241.303	1.36
BNIS	2	1.132.000	818.227.668	0.13
BSM	3	2.232.000	126.907.940	1.75
BRIS	2	1.476.000	57.715.586	2.55
BVS	3	1.026.000	2.296.027	44.6
BBS	2	301.515	5.223.189	5.77

Data sources: (Tahunan, 2020a), (Bank Muamalat 2020, 2020), (www.bsi, 2020), (Bank Syariah Mandiri, 2020), (BRIsyariah, 2020), (Tahunan, 2020b), (PTPerkebunanNusantara, 2020)

The data presents the remuneration or wages of income for each SSB in Islamic banking within one year. BCA sharia with two SSB provides remuneration amounting to 1,206,450 (million rupiah) of the total assets of 329,439,954. As much as 0.36% of the assets are allocated to finance the remuneration of SSB. Bank Muamalat with a cost of 698,549 (million rupiah) is allocated for the remuneration of two SSB, of the total assets owned by 51,241,303 (million rupiah). A percentage of 1.36% of funds is allocated by Bank Muamalat to finance SSB remuneration. BNI Syariah allocated financing funds of 0.13% of the total assets of 818,227,668 (million rupiah) or 1,132,000 (million rupiah) for two SSB. Bank Syariah Mandiri and Bank Victoria Syariah have three SSB with different allocations of funds. 1.75% of total assets of 126,907,940 (million rupiah), Bank Syariah Mandiri or with a nominal value of 2,232,000 (million rupiah), while Bank Victoria Syariah allocated 44.6% or 1.026,000 (million rupiah) of total assets of 2,296,027 (million rupiah). 2.55% of the 57,715,586 (million rupiah) allocation of remuneration funds provided by BRI Syariah for two SSB, with a nominal figure received by two SSB in one year amounting to 1,476,000 (million rupiah). Bank Bukopin Syariah allocates funds for one-year SSB remuneration of 301,515 (million rupiah) or 5.77% of total assets of 5,223,189 (million rupiah).

The allocation of funds that are too large for BVS is almost close to 50% or half of the total assets given to SSB. Bank BNI Syariah and BCA Syariah are the best in allocating funds, this refers to the regulations set by the Financial Services Authority regarding matters that determine the implementation of good governance in providing remuneration for both Islamic financial institutions and sharia business units. Regulations issued by OJK regarding remuneration still provide leeway for each Board of Directors in each institution to provide policies in determining the nominal remuneration. After the policy from the Board of Directors of each institution issues a total remuneration policy, the Board of Directors is obliged to adjust and re-examine whether it is in accordance with what is referred to in Article 3 paragraph 1, must be a remuneration component along with methods and mechanisms for determining remuneration (Otoritas Jasa Keuangan, 2017a). The preparation of the Remuneration policy as referred to in Article 4 must at least consider;

a. risk management that must be effective
b. stable bank or financial institution keuangan
c. the bank has a stable and sufficient capital (does not have a lack of capital)
d. bank can meet liquidity both short term and long term
e. the bank has the potential to increase revenue or increase revenue from year to year
f. all programs in Islamic financial institutions must comply with sharia principles.

This finding proves the importance of observations and stipulations that must be regulated directly by OJK and the Central Bank in terms of the percentage of remuneration from total assets in each bank. This is nothing but to bring Islamic banking towards the goal of achieving Islamic accounting. The implication of this research is the urgency of the role of OJK and BI. They must implement strict controls to ensure remuneration is in accordance with Islamic law (Faradisi, 2020). This also requires honesty from many parties in Islamic banks. Intrinsically, these findings might provide some insight into ideas for regulators, policy makers and other researchers about the effectiveness and presence of SSB in Indonesia especially when including SSB as part of corporate governance mechanisms. Responding to this, it can be overcome by integrating SSB for all banks in Indonesia, besides making National Sharia Board (NSB) more effective in monitoring directly from fatwas issued and implemented in the field. This effectiveness can be a solution to better allocate remuneration funds to optimize financing and reduce liquidity and liabilities from other parties (Diamond & Dybvig, 1983).

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Currently a solid mechanism does not exist for experts to debate differing views on whether IFI products are Shariah compliant. Providing such a mechanism would provide substantial legitimacy to the Islamic finance industry and would also help create the transparency which is essential for good corporate governance. To create such a mechanism, policymakers must determine who should stand up to raise concerns about the Shariah-compliant status of IFI products. In addition, they need to provide a reputable place to adjudicate the matter (Istrefi, 2020). Thus, it is necessary to change the position and function of the SSB as an element of sharia corporate governance. The growing debate about CSR from an Islamic perspective provides some insights and suggestions and opens the door for more research to arrive at a deeper understanding of the determinants of disclosure practices in Islamic banks (El Hussein, 2018).

CONCLUSION

Islamic banks are guided by Sharia as a global law for Muslims, where interest, gambling and speculation are prohibited, and existing financial contracts must be based on real assets and profit and loss sharing (equity based). In contrast to their western counterparts, a special characteristic in the governance structure is the presence of a Sharia Supervisory Board or Sharia Supervisory Board which has a role and responsibility as a supervisor in monitoring and ensuring every product, whether contract, transaction and other business activities in financial institutions. must comply with sharia principles. In this study, empirically analyzes the effect of the efficiency of the SSB of banks with their large remuneration on the financial effectiveness of these financial institutions. The design in this study is intended to determine the effect of the role of the Sharia Supervisory Board with their remuneration in Islamic bank financing. The data sources come from seven Islamic banks which are included in the National Private Commercial Bank and Regional Development Bank in the Financial Services Authority. From this research, the general conclusion is that the remuneration of several SSB in several banks is too large, when viewed from total assets. This finding proves the importance of observations and stipulations that must be regulated directly by OJK and the Central Bank in terms of the percentage of remuneration from total assets in each bank.

With the problems that arise due to the size of several SSB remunerations which are determined differently by each bank, and the thoughts of researchers who came up with the idea of allocating a large amount of remuneration funds for financing funds at each of these banks. This will happen if there is no need for an SSB in every banking sector or in other words, it is sufficient for the NSB to play a role in making regulatory decisions for each product in sharia banking as well as supervising sharia compliance criteria. The NSB is the center for giving fatwas and those who run them, while the SSB is an extension of the NSB for each bank. Then, do we still need SSB in every Islamic bank? Even though some of their remuneration totals are unreasonable, yes is the answer. Their role as gatekeepers maintains sharia compliance, makes strategic decisions prior to launching a product in Islamic banking, their analysis is needed to play an important role in the regulatory process in Islamic banks, has the authority to provide advice and warnings to Islamic bank management regarding management policies and compliance with sharia principles. In addition, they are responsible for directing, reviewing and supervising the activities of IFIs (Islamic financial institutions) for sharia compliance. The Sharia Supervisory Board is responsible for actively overseeing all operational areas of the Islamic financial institution according to Shariah compliance criteria.

This is nothing but to bring Islamic banking towards the goal of achieving Islamic accounting. The implication of this research is the urgency of the role of OJK and BI. They must implement strict controls to ensure remuneration is in accordance with Islamic law. This also requires honesty from many parties in Islamic banks. Intrinsically, these findings may provide some insight into ideas for regulators, policy makers and other researchers about the effectiveness and presence of SSB in Indonesia especially when including SSB as part of corporate governance mechanisms.

This study does not include other variables related to SSB efficiency. Therefore, further research should be able to explore other variables by utilizing the annual financial statements of all Islamic banks in Indonesia, comparisons with total financing for debtors, SSB management commitment in each mandatory role and task, and other governance in the company or bank. There are several limitations in this study such as (1) not using all financial statements of Islamic banking in Indonesia; (2) Several Islamic financial institutions (especially Islamic banks) in this study did not provide complete financial reports and annual reports; (3) many disclosure items are not available in the annual reports of Islamic banks; (4) comparison with other countries that have used the SSB integration system.

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