

Hisbah in the Context of Shariah Governance in Islamic Finance: A Comparison Between Indonesia and Malaysia

*Hisbah, Shariah
Governance and
Islamic Finance*

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ABSTRACT

The Role of Hisbah has been more essential in contemporary world in promoting Ethical Values and Justice in the Society. In Islamic finance setting, the role of Hisbah has been increasingly relevant in modern financial governance especially to ensure that its operation align with the ethical standards and *Shariah* principles. This paper is aimed to overview the concept and urgency of Hisbah and several related major issues such as Core values of the Shariah governance framework (SGF) in Islamic Finance, at last to further discuss the SGF's comparison between Malaysia and Indonesia. The paper adopts a descriptive approach to examine the role of Hisbah in Islamic Finance specifically in the context of SGF. The data, sourced from various journals and books were collected and analysed to find the conclusion regarding the role of Hisbah in promoting adherence to Sharia principles in contemporary Islamic Finance and a brief comparative overview of SGF between Malaysia and Indonesia. The findings of the paper highlight that Malaysia's Shariah governance framework is characterized by a centralized, standardized approach with compliance mechanisms strictly enforced through BNM and SAC to ensure consistency. In contrast, the Indonesian framework is more flexible. the DSN-MUI gives guidance for IFIs as an independent body that exercise their discretion in interpreting Shariah rulings. These two approaches represent the level of regulatory priorities and development aspects of Islamic finance in each country.

Keywords: hisbah, Islamic finance, shariah governance

INTRODUCTION

Islamic economic argues that the market may not by itself be able to fulfil the material needs of mankind. The state's intervention is needed to fill up this gap. Such argument clearly contradicts with a capitalist economy's notion of "laissez faire" which states that the government should not interfere the market mechanism. This is based on the doctrine of "invisible hand" as proposed by Adam Smith. It insists on free market mechanism as the best regulator of economic activities that keep individual and social interests in harmony.

Islam acknowledges the legitimacy of the free market economy in relation to the interplay of supply and demand, attributing its operation not to an abstract concept such as the "invisible hand", but rather to the divine will of Allah. The government in a Muslim state is therefore only allowed to intervene the market when the society interest especially the poor is threatened by irrational or greedy actions of certain group of people. The market economy is considered as crucial in Islam. Since market as a social institution, it facilitates trade and allows exchange of any goods, services and information beneficial for society. Market forces therefore should be free and fair play under normal practical of free competition among the participants.

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However, upholding such a situation is undeniably imperative for the establishment of prosperity. Ensuring the continued efficient operation of the market is not always a straightforward task for the best interest of society. The market does not engage in improper way. This is not only the free competition is insufficient to safeguard social interest but also many disputes and acts of injustices take place in the market. In addition, it encompasses monitoring marketplaces, craftsmanship, and Islamic financial institutions to ensure the adherence of these entities to the laws of Islam.

Consequently, the government is tasked with the responsibility of ensuring and safeguarding society against violations, while also protecting the dignity of individuals and promoting the well-being of the people in accordance with the divine will of Allah. To effectively enforce these regulations, a control mechanism must be implemented by the designated authority responsible for this undertaking. In this regard, the Islamic state must establish a specific institution known as the *Hisbah*. The *Hisbah* serves as an operational control mechanism, operating under the jurisdiction of the state, which serves to maintain the order and direction of social life, with individuals obediently adhering to the established moral standards., Khan (1982).

In light of aforementioned explanation, the current study will discuss the concept of *Hisbah* and its urgent need in contemporary Islamic finance landscape and followed by discussing issues: *Hisbah* in Islamic Finance, Core Values of The *Shariah* Governance Framework, *Shariah* Governance Framework in Malaysian Islamic Finance, the objectives of the establishment of The *Shariah* Committee (SC) and finally, The *Shariah* Governance Framework Comparison Between Indonesia and Malaysia. thirdly, the role of *Shariah* governance in Malaysia context, Finally this paper need to identify the different of key components of *Shariah* governance framework between Malaysia and Indonesia.

Firstly, the nature of *Shariah* governance and the roles of SSB members. Secondly, the *Shariah* Governance Framework in Malaysia. Thirdly, the practices of *Shariah* governance and auditing in Malaysia. Finally, this paper attempts to evaluate the *Shariah* governance practices by Islamic banks in Malaysia and describes some aspects that can be learnt from Malaysia.

METHOD

This paper adopts qualitative approach by using the secondary data that were sourced from academic journals and books. It can open a door to a wide range of relevant information. The collected sources are then processed and analysed to find conclusions so that they can answer the research question Sugiyono (2009) : How the significant role of *Hisbah* in a modern financial governance can helps to maintain Core values such as adherence to *Shariah* principles, transparency, accountability, fairness, stakeholder protection, social responsibility. It also to identify the different of key components of *shariah* Governance framework between Indonesia and Malaysia. Overall, Qualitative research design used in this paper is critical to understand completely and critically the different perspectives leads to the nature of phenomena under analyses (Bhatti & Sundram, 2015).

RESULT AND DISCUSSION

The Concept of *Hisbah* and Its Urgent Need

The term *Hisbah*, in its literal sense, refers to the concept of "sum" or "reward." From a technical standpoint, it signifies the existence of a state institution that aims to promote proper conduct and prevent any form of wrongdoing or transgression. As stated by Al Mawardi, the technical definition entails the act of urging the fulfilment of neglected virtuous actions and discouraging the practice of immoral deeds. Al Ghazali further elaborates on *Hisbah* as an encompassing term, encompassing the responsibility of encouraging righteousness and discouraging evil (Lahsasna, 2011). The notion of *Hisbah* is derived from the Quranic directive which states, "Let there emerge from among you a

collective that advocates for all that is virtuous, encouraging the pursuit of righteousness and abstaining from engagement in malevolence. It is these individuals who will attain success" (Q.3:104).

Khan(1982) furthermore states that the *Mushtasib* assumes various roles that can be classified into three distinct categories: Firstly, those pertaining to the obligations towards God, such as ensuring the timely observance of prayers, organizing congregational prayers on Fridays and festivals, and ensuring the proper maintenance of mosques. Secondly, those pertaining to the rights and welfare of individuals, which involve managing community affairs and regulating conduct within markets. Lastly, those related to municipal administration, which include maintaining cleanliness and illumination of roads and streets during nighttime, as well as preventing the construction of factories or residences that may pose a threat to the community's interests.

There is an urgent need for the revival of the institution of *Hisbah* for the Islamic state to maintain life of society in accordance with the will of Allah. This is because the existence of the *Hisbah* institution in the modern world is mostly overshadowed by the more prevalent institutions of the democratic states. There have been several regulatory agencies in the democratic states but all matters dealing to public interest must be decided in consultation with a powerful council. The question now is how to integrate and make use of this highly valuable institution under such condition raise in mind.

It has increased the needs to strengthen the functions of *Hisbah* authority and integrate it with other regulatory agencies. There are a few ways that have to be enforced. Firstly, it needs a local standard from a regulatory authority to effectively implement, monitor, supervise, enforce and penalize for non-compliance (Lahtasna, 2011). Secondly, it needs to design and develop a comprehensive and integrated infrastructures that accommodate the existing regulatory authority with focus objectives of the *Hisbah* principles and policies. Thirdly, the *Hisbah's* institution partially has to be established with limited function. A power council will watch over the work and conduct of the *Hisbah*. This council may deal with complaints against the *Hisbah* staff and grant exemplary punishments where necessary. Fourthly, it needs to strengthen both moral and spiritual dimension of its society. The government will need to initiate a campaign that encourages people to behave according to the social and moral values of Islam. The government must enforce a code of moral conduct for all cluster of citizens such as public servants, politicians, and businessmen including the leaders of state.

Hisbah In Islamic Finance

As Islamic finance continues to grow, *Hisbah* system remains crucial for guarding ethical economic behaviour and maintaining the integrity of financial operations in accordance with *Shariah* principle. Safiullah & Shamsuddin (2019) mentioned that Islamic finance is a system of financial transactions and practices that operate in accordance with *Shariah* principles. In this case, *Hisbah* would play a crucial role within the governance of Islamic finance. *Hisbah* is a mechanism of oversight and accountability that ensures compliance with *Shariah* principles that includes monitoring financial transactions, products, and operations to ensure that they are in line with the principles of *Shariah*. Muthmainah (2023) stated that by implementing *Hisbah*, *Shariah* financial institutions can maintain the integrity and ethical values of Islamic finance in all financial activities.

The term *Shariah* governance historically has had similar goals and functions with terms *Hisbah* in classical Muslim society, namely to encourage implementation of *Shariah* in the Muamalat system of Muslim society. Good *Shariah* governance practices ensure the sustainability and the performance of Islamic banks in achieving *Maqasid Al Shariah* (Ahmad et al., 2020), which, in turn, improves the welfare of the people (Prasojo et al., 2022c). This is also the objectives and goals of *Shariah* law.

Institutionalization *Shariah* Supervisory Board *Shariah* can be considered a form of the modern concept of *Muhtasib*. The traditional concepts *Hisbah* which is more about market supervision is different from the *Shariah* Supervisory Board institution functions in internal corporate governance who carries out the task advisory and supervisory towards

Shariah compliance in financial system. In addition, in *Shariah* governance, the *Shariah* supervisory board play an important role in the process of supervision, monitoring, auditing, etc providing opinions on *Shariah* compliance in financial institutions or companies who offers the product and *Shariah* services. The existence of a *Shariah* Supervisory Board in Financial Institution becomes something unique in the corporate governance system.

Core Values of The *Shariah* Governance Framework

A *Shariah* governance framework is very important as a guide to evaluate the effectiveness and processes of *Shariah* Governance operates to prevent the risk of *Shariah* non-compliance. Having a framework provides certainty regarding the existence of clear structures and relationships within *Shariah* governance system. Core values such as adherence to *Shariah* principles, transparency, accountability, fairness, stakeholder protection, social responsibility, and continuous improvement are important to ensures that all financial activities align with Islamic ethics, prohibiting *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling), while promoting integrity and justice.

Shariah Governance in Islamic banking represented by the existence of *Shariah* Supervisory Board (SSB) which is able to influence Islamic finance performance due to the existence and optimization of the supervisory role (Mollah & Zaman, 2015 ; Faizi, 2023). This was also expressed by Nomran et.al (2018) that the performance of *Shariah* banking is influenced by the characteristics of *Shariah* Supervisory Board (SSB) related to available number of *Shariah* Committee (SC), reputation and experience. This is certainly strengthening the importance of the role of SSB in *Shariah* Governance in ensuring that the core values are achieved.

In short, the core values of the *Shariah* Governance Framework (SGF) in Islamic finance are purposed to protects stakeholders' interests, prioritizes social welfare, and encourages innovation to meet modern financial needs within *Shariah* boundaries. In general, this framework builds public trust, differentiates Islamic finance from conventional models, and fosters a sustainable, ethically guided financial landscape.

***Shariah* Governance Framework in Malaysian Islamic Finance**

Islamic financial institutions have the duty to ensure the compliance with *Shariah* principles in all aspects of their products, instruments, operations, practices and management which will be achieved by the establishment of a proper *Shariah* governance framework. Thus *Shariah* supervision plays an essential role in the governance of Islamic financial institution and forms part of the main component of the *Shariah* governance framework (Hamza, 2013; Faizi 2023)

According to the Islamic Financial Services Board, the *Shariah* governance framework encompasses a collection of organizational structures that enable Islamic financial institutions to achieve effective supervision, accountability, and responsibility from the board of directors, management, and *Shariah* committee. Put differently, this framework serves as a comprehensive compass that guarantees the adherence to *Shariah* principles in the operational landscape consistently. Essentially, the primary objective of this framework is to augment the responsibility and autonomy of the *Shariah* committee in the decision-making process and to strengthen the overall *Shariah* governance procedure, internal research capacity, compliance and the risk management process. In this regard, the *Shariah* compliant functions must be supported by internal *Shariah* review, audit requirements, an appropriate risk management process and research capability.

However, the *Shariah* governance framework of a financial institution shall consist of the following components, at the very least: (i) the board's supervision of the *Shariah* compliance aspects of the financial system's overall operations; (ii) a *Shariah* Committee comprised of qualified members who possess the ability to deliberate on Islamic finance matters presented to them and provide appropriate *Shariah* rulings; (iii) effective management responsibilities that involve providing sufficient resources and capable support to each function involved in the implementation of *Shariah* governance; (iv) a process of *Shariah* risk management to identify all potential risks of non-compliance with

Shariah principles and, when necessary, take remedial actions to mitigate the risk; (v) a regular *Shariah* audit, conducted at least annually, to verify that financial institutions, such as Islamic banks, align their key functions and business operations with *Shariah* principles; (vi) an ongoing internal *Shariah* review; (vii) an internal team dedicated to conducting research on *Shariah*; and (viii) the issuance and dissemination of *Shariah* rulings to the relevant stakeholders, Wardhany (2012). In short, the structure of *Shariah* governance is shown in Figure 1.

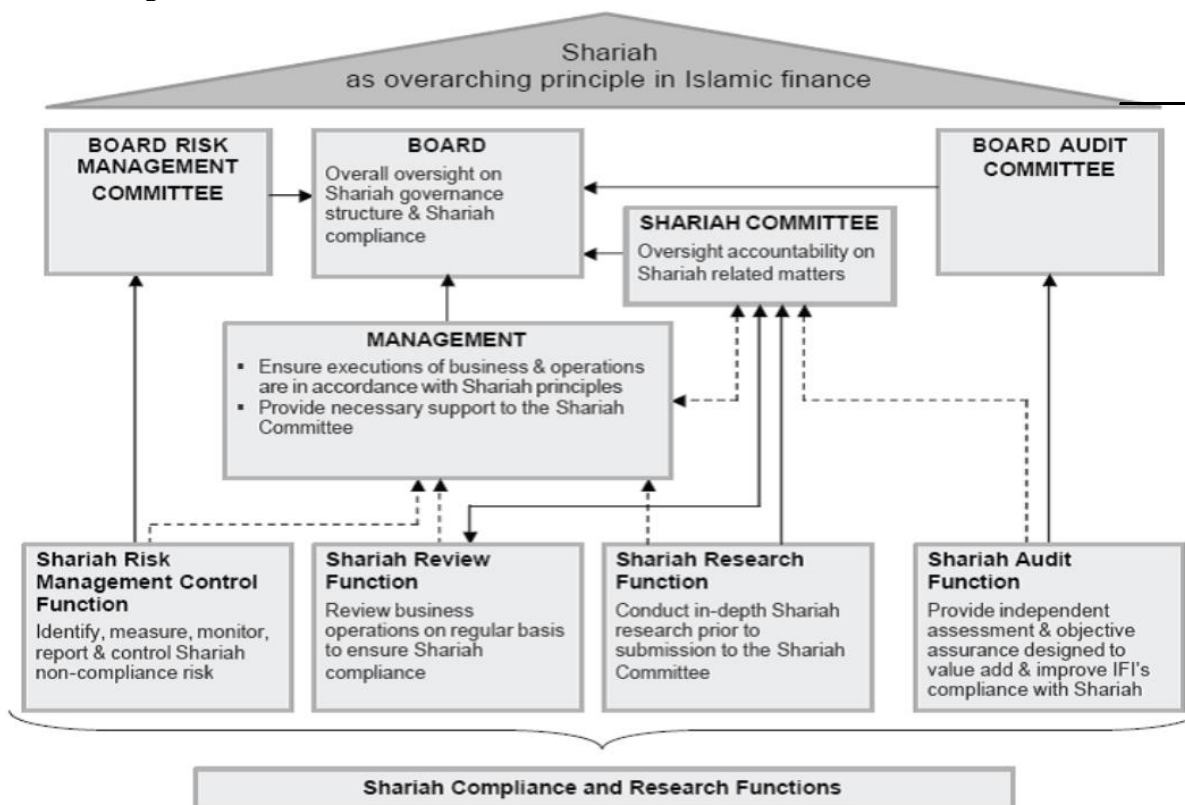


Figure 1. *Shariah* Governance Framework BNM (2011)

Talking it further, there has been two-tiered *Shariah* governance structure adopted by Malaysian Islamic Bank which comprise of National *Shariah* Advisory Body (NSAC) and *Shariah* Committee (SC) and internal *Shariah* department at the respective Islamic financial institutions. BNM established the National *Shariah* Advisory Council (NSAC), that is the primary authoritative body on Islamic financial institutions' *Shariah* concerns.

The *Shariah* Committee who is normally consisting of Fiqh scholars, practitioners and academicians has a duty to advise Islamic financial institutions on the *Shariah* compliance in all aspects and its operations. The members of *Shariah* Committee (SC) are appointed by the Yang di-Pertuan Agong from among people who have knowledge in *Shariah*, finance, banking or other related disciplines.

According to the *Shariah* Governance Framework 2011 (SGF2011), a member of SC must be a Muslim and not a company or any institution. The majority of members of the SC should at least embrace a bachelor's degree in *Shariah* from recognized university which possess knowledge of usul al-Fiqh and fiqh al-mu'amalat. Also, members must have a robust expertise and knowledge of Arabic and English both written and oral. The reason because the source of knowledge in Islamic transactions are in Arabic and English. A member however, is prohibited to sit in more that one committee within the same Industry e.g. Ifs or Takaful. This is because to avoid a conflict of interest and for reasons of confidentiality of the financial institution.

The Objectives of The Establishment of The *Shariah* Committee (SC)

The *Shariah* Committee (SC) is responsible for advising the board of directors on *Shariah* matters in order to ensure that the financial institution such as bank's daily operations are in accordance with *Shariah* principles at all times by validating relevant documentation pertaining to the products and services, evaluating product features, and suggesting alternatives in the event that the products are not in accordance with *Shariah* principles. To help the National *Shariah* Advisory Body (NSAC) in referring for guidance and ensuring that all of its decisions are carried out effectively. The *Shariah* Committee's (SC) judgement shall be referred to as the SC resolution rather than a fatwa. The *Shariah* Committee (SC) will, however, only make resolutions based on the inquiries and needs of its particular Islamic financial institutions, not from the general public, Hassan (2014).

In a situation where there are different views by the *Shariah* Committee in a financial institution such as an Islamic bank, the National *Shariah* Advisory Body (NSAC) advice shall be referred to for a ruling. Under the SGF principle, the court and arbitrator shall consider the rulings of the National *Shariah* Advisory Body (NSAC) in matters pertaining to Islamic and such rulings financial including Islamic banking are binding upon them. In another situation where the decisions given by the SAC are different from those of the *Shariah* Committee, the National *Shariah* Advisory Body (NSAC) decision prevails.

In other words, when divergent interpretations of *Shariah* committees at financial institutions occur, the National *Shariah* Advisory Body (NSAC) is responsible for making the final decision. The National *Shariah* Advisory Body's (NSAC) resolutions are binding and should be followed by *Shariah* committees of all Islamic banks. For example, if the National *Shariah* Advisory Body (NSAC) decides to discontinue the use of a contested contract, *Shariah* committees cannot overturn the decision and permit its use in their local banks. As a result, it is clear that the primary rationale for establishing the National *Shariah* Advisory Body (NSAC) is to ensure that Islamic banking rulings are standardised.

The *Shariah* Governance Framework Comparison Between Indonesia and Malaysia

There are two major *Shariah* governance framework models that have been implemented by Islamic financial institutions globally. According to Yussof (2013, p. 392), these models include the centralised model, which has been implemented in Malaysia, and the decentralised model, also known as the minimalist approach, which has been adopted by the majority of Gulf Countries. By referring to *Shariah* Governance Framework proposed by Bank Negara Malaysia (BNM), there are several regulatory characteristics that makes Malaysia is different from Indonesia. For example, regarding the development process products, *Shariah* Governance Framework BNM has a *Shariah* research function which functions to carry out evaluation of possible new products. In substance, *Shariah* research can apply to practice in Indonesia even though it has not been formally established in Indonesia special unit, yet management can submit product development proposals based on market needs and adjusted to the fatwa of the National *Shariah* Advisory Body – Indonesian Ulama Council (DSN-MUI, *Dewan Syariah Nasional – Majelis Ulama Indonesia*). This can carry out the substance of the *Shariah* research function in proposing innovation product by DSN-MUI.

Shariah audits are carried out internally by auditors and *Shariah* reviews within the framework of the BNM's SGF. On the other hand, in Indonesia, this refers to the implementation of *Shariah* audits and *Shariah* reviews by *Shariah* supervision practices especially in financial institutions in Indonesia are not shared into several functions as in the case of BNM's SGF. The main reason is the limited human resources who should have dual competencies, namely *Shariah* law and finance.

Though, the absence of four functions as in BNM's SGF, but it does not mean the financial institutions in Indonesia unfulfilled this function. For example, regarding management risk, the Indonesian financial law requires every institution to have risk management function which is tasked with identifying, assessing, mitigating risks and reporting. However, it is not guaranteed that whether financial institutions also have a function to anticipate risks related to *Shariah* non-compliance.

However, Table 1 shows the difference of key components of *Shariah* Governance Framework between Indonesia and Malaysia.

Table 1. Comparison the SGF Between Indonesia and Malaysia

Components	Indonesia	Malaysia
Legal Framework	<p>The foundational Legal framework for Islamic banking is</p> <ul style="list-style-type: none"> ○ Law No. 21 of 2008 that was issued by the Indonesian government. This law is applied as a legal basis to ensure that financial activities comply with <i>Shariah</i> law. ○ Regulation Number 55/POJK.03/2016 on <i>Shariah</i> Governance that was issued by the Financial Services Authority (OJK), this regulation provides detailed guidelines for <i>Shariah</i> governance for both Islamic banks and financial institutions. 	<ul style="list-style-type: none"> ○ The foundational legal basis for Islamic finance is <i>Shariah</i> Governance Framework (SGF) 2010 ○ Islamic Financial Services Act 2013 (IFSA) is replacing the Islamic Banking Act 1983 (IBA). The IFSA provides a more robust regulatory framework for IFIs. ○ The <i>Shariah</i> Governance Policy Document (SGPD) 2019 was issued by BNM It superseded SGF 2010 that emphasized <i>Shariah</i> non-compliance risk's management.
Governance Framework Structure	<p>Indonesia adopts a decentralized model. This structure can lead to inconsistencies and complicate in <i>Shariah</i> interpretation and compliance practices across IFIs.</p>	<p>The structure is characterized by a centralized <i>Shariah</i> Advisory Council that supervises compliance and ensures uniformity and consistency in applying <i>Shariah</i> principles across IFIs.</p>
Regulatory Authority	<p>Financial Services Authority (OJK) and DSN-MUI.</p> <ul style="list-style-type: none"> ○ OJK has established the overall regulation and supervision of Islamic financial institutions, ○ DSN-MUI: issues fatwas and guidelines for <i>Shariah</i> compliance on specific <i>Shariah</i> issues related to financial products and service. 	<p>Bank Negara Malaysia (BNM) and The <i>Shariah</i> Advisory Council (SAC).</p> <ul style="list-style-type: none"> ○ BNM responsible for comprehensive guidelines for <i>Shariah</i> governance ○ SAC operates under Bank Negara Malaysia, overseeing and monitoring compliance across Islamic financial institutions (IFIs).
<i>Shariah</i> Supervisory Board (SSB)	<p>Each Islamic financial institution is required to have an SSB or dewan pengawas <i>Syari'ah</i> (DPS) which is scholars with expertise in Islamic law and finance. DPS is directly hold responsible to DSN-MUI.</p>	<p>Each IFI is required to establish its own <i>Shariah</i> Committee (SC), which works within the framework provided by BNM's <i>Shariah</i> Governance Framework (SGF). The main role of SC is to ensures that:</p>

	<p>The main role of the DPS is to</p> <ul style="list-style-type: none"> ○ Interpret and implement guidelines provided by DSN-MUI at the institutional level. ○ ensure all banking products and services adhere to Islamic law, 	<ul style="list-style-type: none"> ○ <i>Shariah</i> compliance is consistent across all IFIs, ○ The report is regularly submitted to BNM.
Compliance Mechanisms	<ul style="list-style-type: none"> ○ Fatwa issued by DSN-MUI that is binding on IFIs ○ The Board of Commissioners and Directors in Indonesian IFIs do not have as active a role in <i>Shariah</i> governance as their Malaysian counterparts. ○ The OJK mandates IFIs to conduct <i>Shariah</i> audit by DPS and reports are generally submitted to the DSN-MUI rather than a centralized regulatory body (OJK). 	<ul style="list-style-type: none"> ○ Guidelines issued by SAC that is binding on IFIs ○ All levels include Board of Directors, management, and <i>Shariah</i> committees, are actively involved in <i>Shariah</i> compliance. ○ BNM requires IFIs to conduct a <i>Shariah</i> audit by <i>Shariah</i> auditors as a crucial part of the SGF, and findings are reported to BNM.
Disclosure and Transparency	<p>These aspects are also emphasized by OJK whereby IFIs in Indonesia regularly report to the DSN-MUI. The degree of detail in <i>Shariah</i> compliance reporting can vary across IFIs, indicating a more flexible regulatory approach. This is also reflecting Indonesia's pluralistic approach to <i>Shariah</i> interpretation.</p>	<p>BNM requires Malaysian IFIs to annually publish reports that contains <i>Shariah</i> compliance status, audit findings, resolutions of <i>Shariah</i> non-compliance events, and corrective measures taken. BNM's emphasized transparency to gain stakeholder trust.</p>

The *Shariah* review function and *Shariah* audits in Indonesia are within the scope of *Shariah* advisory responsibility. In recently legislated *Shariah* Banking Act, Indonesia has moulded its *Shariah* governance framework similar to the Malaysian model, namely the centralised model of Islamic finance supervision. Based on the rules regarding *Shariah* governance in Indonesia and Malaysia, Indonesia's *Shariah* governance process uses a loose approach, while Malaysia using a strict approach. This can be seen from the arrangement In Indonesia, the number of *Shariah* advisory members at least two staff, while in Malaysia in the SGF-BNM is regulated as a member of the *Shariah* Committee at least five people. Regarding the dual position rules, in Indonesia gives rules for a maximum of four financial institutions, while in Malaysia provides regulations that must not be used concurrently in financial institutions for industry the same (in this case the banking industry).

Regarding disclosure of *Shariah* governance shows that Indonesia has a *Shariah* disclosure index for *Shariah* banking governance is higher than Malaysia. This occurs because the nature of the original laws adopted by the two countries is different. Indonesia

adheres to a civil law legal system which is more binding rather than the common law legal system adopted by Malaysia.

Based on the 2010 *Shariah* Governance Framework, it regulates provisions for SC members in Malaysia must be Muslim with a bachelor's degree undergraduate in the field of *Shariah* including studies ushul Fiqh or muamalah fiqh Which come from a well-known campus. SC members must also have language skills Malay and English are good, both oral and written. On the other hand, the rules provide leeway to appoint SC members who come from backgrounds financial or legal background provided that the number is not a majority of the total SC members. Even in Malaysia, compost is encouraged fill in SC membership in a companies with different backgrounds both in terms of competency and education as well as experience. This is intended so that the opinion issued by the SC can consider various aspects.

Meanwhile for Indonesia the requirement to be SC members are as follow. They have good morals and morals, have a commitment to comply with Islamic financial regulations and other applicable laws and regulations, have a commitment to developing a healthy and resilient (sustainable) financial institution. They are not included in the Failed List as regulated in the provisions regarding the fit and appropriate assessment set by Bank Indonesia Capability, who have knowledge and experience in the ground of *Shariah* mu'amalah (Usanti,2022).

CONCLUSION

The implementation of a centralized approach in the *Shariah* governance framework in Malaysia undoubtedly contributes to a more systematic and transparent development of the Islamic financial system. As a result, it is not surprising that Indonesia has chosen to adopt the Malaysian approach in governing its Islamic financial institutions (IFIs). It can be argued that Malaysia surpasses Indonesia in three crucial areas: legal framework, asset growth, and *Shariah* governance. Conversely, Indonesia has surpassed Malaysia in terms of court jurisdiction and the range of products offered. It is important to acknowledge that Malaysia enforces a more authoritative regime in its legal framework and *Shariah* governance, aiming to ensure the smooth and systematic development of the Islamic banking sector while mitigating any factors that may destabilize the financial ecosystem in the country. This approach likely stems from past experiences where financial researchers emphasized the need for a more disciplined and well-regulated banking and financial system, as exemplified by the U.S. subprime mortgage crisis in 2008. In terms of asset growth, Malaysia is widely recognized for its exceptional performance; however, this achievement is tarnished by its involvement in controversial muamalat business contracts. On the other hand, Indonesia takes a more cautious approach by limiting its product offerings to sound contracts from a muamalat perspective, which consequently results in slower growth. In the realm of court jurisdiction, Indonesia appears to possess a more consistent and coherent court structure to handle disputes within the Islamic banking system. In summary, although Malaysia had a head start of a decade in establishing the Islamic banking system, Indonesia is steadily narrowing the gap.

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