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COMPARATIVE STUDY OF ISLAMIC BANKING SUPERVISION REGULATION IN INDONESIA AND MALAYSIA

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ABSTRACT

This study compares the supervisory regulations of Islamic banks in Indonesia and Malaysia, which are supervised by the Financial Services Authority (OJK) and Bank Negara Malaysia (BNM) respectively. Despite the importance of Islamic banking to the economies of both countries, the supervisory techniques used by OJK and BNM are very different. This study utilizes a comparative research approach to examine the similarities and differences between the supervisory regulations imposed by the two institutions. The findings show that OJK in Indonesia prioritizes institutional development and Shariah compliance with a focus on risk management, whereas BNM in Malaysia integrates Shariah principles with financial risk management in a more holistic way and supports Islamic financial product innovation. In regulatory effectiveness research, BNM's strategy is more effective in promoting Islamic banking growth and stability compared to OJK, which continues to face issues in regulatory harmonization and product innovation. These findings shed light on how to improve the quality of Islamic banking supervision in both countries, as well as the implications for policy development.

Keywords: *Supervisory regulation, Islamic banking, Risk management*

INTRODUCTION

Sharia banking plays a vital role in the economy of Indonesia and Malaysia, countries with a majority Muslim population. In Indonesia, the Islamic banking industry has become an important component in the national financial system, providing goods and services in accordance with sharia principles such as the prohibition of usury (interest) and promoting justice in financial transactions. Meanwhile, Malaysia has established itself as a global Islamic financial center (Herlianti, 2019). The strong and innovative Malaysian Islamic financial ecosystem attracts investors from all over the world and becomes a model for other countries who want to build Islamic banking (Siti, 2022). Sharia banking in Malaysia is very important not only for the domestic economy, but also helps promote Islamic finance on a global scale (Adji, 2020).

In Indonesia, Islamic banking is supervised by the Financial Services Authority (OJK). The OJK mandate is to ensure that Islamic banks in Indonesia comply with applicable laws and regulations and are able to face the challenges of dynamic financial systems. Islamic banking in Indonesia faces the challenges of rapid ecosystem changes, as in the Islamic banking road map issued by the Financial Services Authority (OJK) in 2020-2025 it is stated that Islamic banking rests on three important things in the future, namely strengthening identity, synergy, and ecosystem Sharia economy and strengthening licensing, regulation and supervision (Rahmayati & Khairunnisa, 2023). Indonesia, as a country with the largest Muslim population in the world, has a huge potential for the development of Islamic banking, but also has challenges in terms of harmonization of regulations and improving the quality of supervision (Sukmana et al., 2024)

Meanwhile, in Malaysia, Bank Negara Malaysia (BNM) is not only the central bank but also the main regulator of Islamic banking (Majid, 2017). Malaysia's extensive and creative regulatory structure has led it to be recognized as a global leader in Islamic finance. BNM proactively designs policies encouraging innovation in the Islamic banking sector while adhering to Shariah principles. Malaysia has become a model in the international Islamic finance industry thanks to BNM's strict supervision (Poundrianagari, 2022).

The different regulatory and supervisory approaches between OJK and BNM reflect each country's unique background and challenges. In Indonesia, supervision is mainly focused on institutional development and Islamic financial literacy development, but in Malaysia, supervision is focused on the creation of more complex Islamic financial products and the integration of Islamic finance into the global market (Pramesti et al., 2023). A comparative study of Islamic banking regulation and supervision in these two countries is needed to find the best practices that can be applied in each country. This will help improve the quality of Islamic banking supervision and regulation in Indonesia and Malaysia, and aid the long-term growth and stability of the Islamic finance industry.

METHOD

This study uses a comparative research method. The purpose of the comparative study is to identify and analyze the differences and similarities in the regulation of Islamic banking supervision in Indonesia and Malaysia, especially those carried out by the Financial Services Authority (OJK) and Bank Negara Malaysia (BNM). Data Sources from Islamic banking sector regulations in Indonesia and Malaysia. This study will also utilize relevant scientific journals to obtain Data Analysis Method Descriptive Analysis: This method is used to describe the regulatory framework in force in Indonesia and Malaysia. The explanation will include the structure, procedures, and policies implemented by OJK and BNM in supervising Islamic banks. Comparative Analysis: After the descriptive data is collected, a comparative analysis is conducted to compare the similarities and differences between the supervisory regulations implemented by OJK and BNM. The purpose of this analysis is to identify the strengths and weaknesses of each approach. Qualitative Analysis: Qualitative analysis is used to evaluate the effectiveness of regulation based on selected case studies. This analysis will consider how regulations in each country are implemented in practice and their impact on the stability and growth of the Islamic banking sector.

RESULTS AND DISCUSSION

Islamic Banking Supervision Regulations in Indonesia (OJK)

The legal framework for supervision of Islamic banks in Indonesia is regulated by several laws and regulations. Law No. 21 of 2008 concerning Islamic Banking is the main reference in regulating the operation and supervision of Islamic banks in Indonesia. In addition, OJK refers to Law No. 23 of 1999 which regulates Bank Indonesia, which has been amended several times, and Law No. 21 of 2011 concerning the Financial Services Authority. These three regulations provide a strong legal basis for OJK to carry out its supervisory role over Islamic banks (Sukmana et al., 2024).

OJK uses a risk-based supervision paradigm to ensure that Islamic banks operate at a limited level of risk. This risk-based supervision includes identifying, assessing, and monitoring various risks faced by Islamic banks, including credit risk, operational risk, market risk, and liquidity risk (Abdul et al., 2022). This idea aims to focus OJK's attention on banks that have higher risk potential, so that supervision can be carried out more efficiently and effectively. In addition, OJK emphasizes the importance of complying with Sharia principles in all aspects of bank operations. This includes using Sharia-compliant contracts, prohibiting transactions involving usury, maysir (speculation), and gharar (uncertainty), and incorporating zakat and social responsibility obligations into bank operations (Wahyu & Anwar, 2020). OJK uses various supervisory tools to verify that Islamic banks comply with applicable laws. These instruments include the following :

a) Regulations and standards: OJK issues various regulations and standards that must be followed by Islamic banks, including those governing risk management, corporate governance, and financial reporting.
b) Direct and Indirect Inspections: OJK conducts direct inspections of Islamic banks to ensure compliance with Islamic regulations and principles. In addition, OJK conducts indirect inspections (off-site supervision) by analyzing monthly reports provided by Islamic banks.
c) Sanctions and Supervisory Actions: If violations or non-compliance are found, OJK has the right to impose administrative sanctions such as written warnings, fines, or restrictions on business activities. OJK can also take extraordinary regulatory measures, such as requiring Islamic banks to strengthen their risk management and governance systems.

Through this comprehensive regulatory framework, OJK seeks to maintain the integrity and stability of the Islamic banking sector in Indonesia, as well as ensure that Islamic bank operations remain in accordance with Islamic principles and applicable financial standards.

Islamic Banking Supervision Regulation in Malaysia (BNM)

Bank Negara Malaysia (BNM) has issued several laws and regulations that establish the legal framework that oversees Islamic banks in Malaysia. The Islamic Financial Services Act 2013 (IFSA) is the primary legal framework governing Islamic banking in Malaysia. The IFSA provides a comprehensive framework to supervise, regulate, and control Islamic financial institutions, ensuring that their operations are consistent with Shariah principles. In addition, BNM refers to the Bank Negara Malaysia Act 2009, which empowers BNM to regulate the financial industry, including Islamic banking, and maintain national financial stability (Echa & Shalauddin, 2024).

BNM follows a risk-based supervision concept similar to that used by the OJK in Indonesia, but with a greater emphasis on Shariah compliance and the integration of Shariah components into financial risk management. This supervision takes a holistic approach, which includes: Shariah Supervision: BNM emphasizes the importance of Shariah compliance in all banking activities (Puspita & Saryadi, 2018). To ensure this, BNM requires every Islamic bank to form a Shariah Supervisory Board tasked with examining and approving the bank's products and services. Prudential Supervision: BNM conducts prudential supervision to ensure that Islamic banks have financial resilience and are able to manage various financial risks that may arise. This includes supervision of the bank's capital, liquidity, and asset quality.

BNM uses various supervisory instruments to ensure that Islamic banks operate in accordance with the established regulatory framework. These instruments include:

a) Shariah Regulations and Standards: BNM issues various Shariah regulations and standards that Islamic banks must comply with. These include minimum capital requirements, liquidity standards, and Shariah risk management guidelines. BNM also issues guidelines related to Islamic financial products and services, ensuring that all transactions and contracts entered into by the bank are in accordance with Shariah law.
b) Inspection and Supervision: BNM conducts in-depth on-site supervision of Islamic banks to ensure their compliance with Shariah regulations and principles. In addition, BNM also carries out indirect supervision (off-site supervision) through periodic monitoring of financial reports and bank operations.
c) Enforcement and Sanctions: BNM has the authority to take action if violations of sharia or financial regulations are found. These actions can be in the form of administrative sanctions, orders to correct weaknesses found, to revocation of operational licenses for banks that commit serious violations.

Through this strong and comprehensive regulatory framework, BNM not only ensures that Islamic banks in Malaysia operate with strict sharia principles, but are also able to maintain financial stability and provide protection to consumers. The supervisory approach implemented by BNM has made Malaysia one of the countries with the most advanced Islamic financial ecosystems in the world.

The following is a table that illustrates the comparison of Islamic bank supervision regulations between the Financial Services Authority (OJK) in Indonesia and Bank Negara Malaysia (BNM) in Malaysia (Sirajuddin, 2018):

Aspect	Otoritas Jasa Keuangan (OJK) - Indonesia	Bank Negara Malaysia (BNM) - Malaysia
Principles of Supervision	- Risk-Based Supervision	- Risk-based supervision with full integration of sharia principles.
	- Emphasis on general regulatory compliance and financial reporting.	- Emphasis on integration of sharia with financial risk management.

Monitoring Mechanisme	- Direct (on-site) and indirect (off-site) inspection.	- Direct (on-site) and indirect (off-site) inspection.
	- The sharia fatwa was issued by the MUI, then adopted by the OJK.	- The National Sharia Council provides binding sharia guidelines.
Monitoring Instrument	- Risk management regulations, corporate governance, sharia standards.	- Sharia regulations that are more integrated with product certification.
	- Sharia product certification is more varied in its application.	- Product certification must be carried out by the Sharia Supervisory Board.
Approaches to Sharia Supervision	- Sharia supervision is more decentralized, involving various parties.	- Integrated sharia supervision with a holistic approach.
The Role of Sharia Supervisory Board	- Roles vary and do not always have strong authority in all banks.	- A central and binding role, mandatory for every product and service.
Effect on Sharia Product Innovation	- Sharia product innovation is hampered by regulatory uncertainty.	- Innovation is supported by a clear and strict regulatory framework.

Effectiveness Analysis of Regulation

Indonesia (OJK): The regulation implemented by the Financial Services Authority (OJK) in Indonesia has several positive aspects in maintaining the stability of Islamic banking. Risk-based supervision and the implementation of strict risk management standards have helped Islamic banks in Indonesia to better manage financial risks. However, the effectiveness of this regulation is sometimes hampered by variations in the interpretation and application of Islamic principles, especially due to more decentralized Islamic supervision. In some cases, uncertainty in Islamic compliance can reduce consumer confidence and hinder product innovation (Putra, 2024).

A case study that can be taken is the liquidity crisis experienced by several Islamic banks in Indonesia in 2018. Although OJK has implemented risk-based supervision, these Islamic banks have difficulty in managing their liquidity, which is partly due to the lack of innovation in Islamic products that can attract fresh funds from the public. Supervision that is less focused on product development and overemphasizes administrative compliance is considered as one of the factors that hinders the ability of Islamic banks to adapt to changing market conditions.

Malaysia (BNM): Bank Negara Malaysia (BNM) has built a more comprehensive and integrated regulatory framework, with a strong emphasis on integrated shariah supervision with financial risk management (Ayu et al., 2023). The effectiveness of BNM's regulation is evident in its ability to support innovation of shariah products while ensuring strict compliance with shariah principles. This framework has enabled Islamic banks in Malaysia to develop into global leaders in the Islamic finance industry, with a strong reputation for shariah integrity and financial stability.

For example, the successful introduction of Sukuk by Islamic banks in Malaysia in the early 2000s can be attributed to BNM's regulation that supports innovation of shariah products. BNM not only provides a clear and firm framework in terms of shariah compliance, but also encourages banks to develop products that can compete in the global market. This shows how effective regulation can provide a strong foundation for growth and expansion of Islamic financial products, while ensuring compliance with Islamic principles.

CONCLUSION

This study reveals that the supervisory procedures used by OJK and BNM differ fundamentally in terms of Shariah integration and risk management. BNM in Malaysia has effectively built a more comprehensive regulatory framework that not only ensures Shariah compliance but also promotes innovation in Islamic financial products. Meanwhile, OJK in Indonesia continues to face obstacles in harmonizing Islamic regulations and product development, which may hinder the growth of Islamic banking in Indonesia. Therefore, it is recommended that OJK strengthen Shariah integration in risk management and take inspiration from BNM's comprehensive strategy to improve the effectiveness of supervision and encourage innovation in Islamic products in Indonesia.

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