West Science Islamic Studies
Vol. 3, No. 02, April 2025, pp. 100~105

Synergy of the National Sharia Board and the Financial Services Authority in the Development of Sharia Financial Regulations in Indonesia

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Article Info

Article history:

Received April, 2025
Revised April, 2025
Accepted April, 2025

Keywords:

National Sharia Board,
Financial Services Authority,
Sharia Financial Regulations,
Islamic Finance Development

ABSTRACT

This study examines the synergy between the National Sharia Board (Dewan Syariah Nasional, DSN) and the Financial Services Authority (Otoritas Jasa Keuangan, OJK) in developing sharia financial regulations in Indonesia. Employing a qualitative research approach, the study focuses on data obtained from semi-structured interviews with three informants, comprising a DSN representative, an OJK official, and a sharia finance expert. Key findings reveal the importance of collaborative decision-making, role clarity, structured communication mechanisms, and capacity building in ensuring effective regulation. However, challenges such as delays in policy integration and difficulties in addressing financial technology innovations persist. This research highlights the critical role of synergy between religious and regulatory institutions in fostering the growth of the sharia finance sector, positioning Indonesia as a global leader in Islamic finance.

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1. INTRODUCTION

The development of sharia-compliant financial systems has emerged as a pivotal component of Indonesia's economic landscape, reflecting the country's position as one of the largest Muslim-majority nations in the world. With a rapidly growing demand for sharia-compliant financial products and services, the government has intensified its focus on creating a robust regulatory framework to support the industry's growth. Central to this effort is the collaborative synergy between two key institutions: the National Sharia Board (Dewan Syariah Nasional, DSN) and the Financial Services Authority (Otoritas Jasa Keuangan, OJK). These institutions are tasked with ensuring that sharia financial regulations align with both Islamic principles and national economic objectives. The OJK is responsible for the comprehensive regulation and supervision of the financial services sector, including sharia finance, ensuring the success of sharia financing companies [1]. Meanwhile, the DSN, part of the Indonesian Ulama Council, issues fatwas on the permissibility of financial transactions, ensuring they comply with Islamic law [1]. The collaboration between OJK and DSN has led to the development of sharia-compliant financial products that prohibit usury, uncertainty, and gambling [1]. This institutional synergy has fostered a conducive environment for the growth of Islamic finance in Indonesia. Moreover, Islamic finance—particularly banking and bonds (sukuk)—has shown a positive and significant impact on Indonesia's economic growth [2]. However, the performance of other instruments such as Islamic mutual funds and stocks has been mixed, with mutual funds having a negative impact, highlighting areas that require further policy refinement [2], [3]. One of the critical challenges Indonesia faces is the fragmented nature of its regulatory framework compared to Malaysia's more centralized system, which complicates effective implementation [4]. Nonetheless, the Islamic financial services industry continues to witness substantial growth, attracting both Muslim and non-Muslim investors who are increasingly interested in ethical financial solutions [5].

The DSN, as part of the Indonesian Ulema Council (Majelis Ulama Indonesia, MUI), plays a critical role in providing religious guidance by issuing fatwas and overseeing compliance with sharia principles, while the Financial Services Authority (Otoritas Jasa Keuangan, OJK) functions as the primary regulatory body responsible for ensuring the stability, transparency, and integrity of the financial system. Their combined efforts aim to establish a financial ecosystem that not only adheres to Islamic values but also meets global regulatory standards. Despite their shared objectives, the collaboration between these institutions presents unique challenges, including the need for effective communication, coordination of responsibilities, and resolution of potential conflicts between religious and regulatory priorities. The National Sharia Council (DSN) of the Indonesian Ulema Council (MUI) and the OJK play complementary roles in regulating and supervising Islamic banking in Indonesia, with the DSN primarily responsible for ensuring adherence to sharia principles through the issuance of fatwas and religious guidance, and the OJK overseeing financial system integrity, including Islamic banks, as mandated by Law No. 21 of 2011 [6], [7]. The DSN issues fatwas that serve as operational references for Islamic financial institutions to ensure their activities align with sharia principles [8], playing a pivotal role in the development and supervision of Islamic banking products and contributing significantly to maintaining sharia compliance [7]. These fatwas, initially non-binding, have been increasingly integrated into Indonesia's legal framework, creating a methodical and democratic mechanism for sharia compliance [9]. On the other hand, the OJK holds comprehensive authority over the financial sector, including Islamic banking, ensuring systemic stability while collaborating with the DSN to guarantee conformity with both financial regulations and Islamic law [6], [8]. However, legal ambiguity and the dualism of authority between the DSN, OJK, and other institutions such as Bank Indonesia (BI) pose challenges to effective regulation (Adnan et al., 2024). Recommendations to address these issues include regulatory adjustments to minimize legal ambiguity, enhanced inter-agency coordination, and broader education and public engagement to foster greater understanding and trust in Islamic banking [7].

This study explores the dynamics of the DSN-OJK partnership in the development of sharia financial regulations, focusing on their collaborative mechanisms, the challenges they face, and their strategies for fostering a harmonized regulatory environment. Using a qualitative research approach, the study engages three key informants who possess substantial expertise and experience in sharia finance policymaking. Their insights offer a comprehensive understanding of the practical and strategic aspects of this partnership, shedding light on how it contributes to the overall growth and sustainability of Indonesia's sharia financial sector.

2. LITERATURE REVIEW

2.1 Sharia Finance and Regulation in Indonesia

Indonesia's sharia financial sector has grown significantly, driven by rising consumer demand and strong government support, with its success relying on aligning sharia principles with national and international regulations. The National Sharia Board (DSN) and the Financial Services Authority (OJK) play key roles in developing regulations that balance Islamic values and financial system needs. Islamic banking has progressed notably, supported by public awareness and regulatory frameworks, with assets reaching US$17 billion in 2012 and continuing to grow [10], [11]. The Islamic capital market also supports economic growth by increasing market capitalization and funding MSMEs [12]. Challenges remain, including competition from conventional banks, limited global product access, and the need for a skilled workforce [10]. Nevertheless, the market's stability continues to attract investors. Sustained growth depends on strong regulation, innovation, and improved institutional support [13], [14]

2.2 The Role of the National Sharia Board (DSN)

The National Sharia Council (DSN) under the Indonesian Ulema Council (MUI) ensures financial transactions comply with Islamic principles by issuing fatwas that guide the development of sharia-compliant financial products. These fatwas, rooted in classical jurisprudence and adapted to modern needs, have been integrated into the Sharia Banking Law, making them legally binding [9], [15]. The DSN also audits and certifies institutions for sharia compliance [6]. However, challenges remain, including inconsistent fatwas, limited fiqh diversity, differing interpretations, and a lack of skilled personnel (Maghfur, 2025; Rozi, 2024). Additionally, the limited exposure of DSN scholars to modern finance complicates fatwa alignment with current practices, highlighting the need for collaboration with regulatory bodies [6]. The DSN works with the Financial Services Authority (OJK) and Self-Regulatory Organizations (SROs) to ensure Islamic finance remains both compliant and stable [16].

2.3 The Role of the Financial Services Authority (OJK)

The Otoritas Jasa Keuangan (OJK) is central to regulating and supervising Indonesia's financial sector, including Islamic finance, with responsibilities covering licensing, monitoring, and enforcement to ensure stability and consumer protection. Formed to unify oversight previously held by the Ministry of Finance and Bank Indonesia [17], the OJK operates under Act No. 11 of 2011, granting it broad authority across financial services, including Islamic banking [18], [19]. To support Islamic finance growth, the OJK integrates sharia principles aligned with international standards such as AAOIFI and IFSB [19], working closely with the Dewan Syariah Nasional (DSN) to ensure compliance with Islamic law [18]. Balancing these global standards with Indonesia's cultural and religious context requires continued collaboration [18]. The OJK's role also aligns with maqasid al-sharia, aiming to promote benefit and prevent harm [20].

2.4 Research Gap

While existing literature provides a broad understanding of the roles and challenges of the DSN and OJK, there is limited research on the practical dynamics of their collaboration. This study addresses this gap by focusing on the lived experiences and perspectives of key informants actively involved in the regulatory process. By examining their insights, the research aims to provide actionable recommendations for strengthening the synergy between the DSN and OJK.

3. METHODS

A qualitative design was chosen to capture the in-depth perspectives and lived experiences of individuals directly involved in the regulatory process. This approach is particularly effective for exploring complex institutional interactions, as it enables a nuanced understanding of the collaborative mechanisms between the DSN and OJK. Adopting an interpretative paradigm, the study aimed to uncover the underlying meanings and implications of their partnership. Data were collected through semi-structured interviews, offering flexibility to explore key topics while maintaining consistency across informants. The interview guide focused on several areas: the division of roles and responsibilities between the DSN and OJK, mechanisms for effective collaboration, challenges in developing and implementing sharia financial regulations, and strategies or best practices to address those challenges. To complement the interviews, the study also examined relevant documents—such as regulatory policies, fatwas, and official reports—to triangulate findings and enhance contextual depth.

Three key informants were selected through purposive sampling based on their expertise and direct involvement in sharia finance regulation in Indonesia: a senior DSN official experienced in issuing fatwas and overseeing sharia compliance, a senior OJK regulator responsible for integrating sharia principles into financial regulations, and an academic-practitioner who has served as a liaison between the DSN and OJK in previous collaborative projects. These informants provided comprehensive insights into the institutional dynamics under investigation. Data analysis followed Braun and Clarke's (2006) six-phase framework for thematic analysis: familiarization with data through verbatim transcription and repeated review; generation of initial codes to identify key concepts; organization of codes into broader themes; refinement of themes to ensure alignment with research objectives; clear definition and labeling of themes; and synthesis of findings into a coherent narrative, supported by direct quotes and illustrative examples from the interviews.

4. RESULTS AND DISCUSSION

4.1 Collaborative Decision-Making

The DSN and OJK exhibit a strong collaborative relationship, characterized by regular consultations and joint decision-making processes. Informants emphasized that integrating DSN-issued fatwas into OJK regulations necessitates continuous dialogue and consensus-building to align religious principles with financial policies. A DSN representative stated, "We ensure that the fatwas issued are practical and adaptable to the financial sector while remaining true to Islamic principles," highlighting the importance of flexibility and relevance in religious rulings. Similarly, an OJK official remarked, "OJK actively seeks DSN's guidance to ensure compliance with sharia values, especially in areas involving new financial products," underscoring the regulatory body's reliance on DSN's expertise to uphold sharia compliance in an evolving financial landscape.

4.2 Role Clarity and Division of Responsibilities

The DSN primarily focuses on issuing fatwas and ensuring sharia compliance, while the OJK is responsible for policy implementation and regulatory enforcement, creating a clear delineation of roles that minimizes overlap and supports efficient collaboration. As noted by a DSN representative, "Our role is to provide the religious foundation; OJK translates it into actionable regulations," illustrating how each institution contributes distinctly yet complementarily to the governance of sharia-compliant financial systems.

4.3 Communication Mechanisms

Structured communication mechanisms, such as periodic meetings and joint task forces, play a critical role in the DSN–OJK partnership by facilitating dispute resolution and aligning institutional priorities. These platforms ensure continuous coordination and responsiveness to regulatory challenges. As highlighted by an OJK official, "Regular coordination meetings help us bridge any gaps and address regulatory challenges proactively," emphasizing the importance of sustained dialogue in maintaining effective collaboration.

4.4 Challenges in Integration

Despite their effective collaboration, challenges persist between the DSN and OJK, including delays in policy implementation due to differing institutional priorities and difficulties in interpreting fatwas within regulatory contexts. The rapid advancement of financial technology has further contributed to a regulatory lag, complicating the timely adaptation of sharia principles to emerging financial innovations. As noted by a sharia finance expert, "Sometimes, fatwas are broad in scope, making it challenging to apply them directly in specific regulatory scenarios," highlighting the need for continuous refinement and contextualization of religious guidance in response to evolving financial landscapes.

4.5 Capacity Building and Knowledge Sharing

Both institutions recognize the importance of capacity building to enhance their staff's understanding of sharia principles and financial regulations. To address this, joint training programs and workshops have been initiated, fostering mutual learning and improving regulatory coherence. As emphasized by an OJK official, "Capacity-building programs have strengthened our ability to integrate sharia principles into modern financial frameworks," reflecting the value of continuous education in supporting effective and harmonized regulatory practices.

DISCUSSION

The findings underscore the importance of a synergistic relationship between the DSN and OJK. The alignment of roles and responsibilities enables each institution to leverage its core strengths—religious authority and regulatory oversight—thereby establishing a robust framework for sharia financial governance. This synergy exemplifies principles of effective inter-organizational collaboration commonly highlighted in regulatory governance literature. The DSN-OJK partnership also reflects a careful balance between upholding Islamic values and meeting the functional demands of a modern financial system. Through structured communication and joint decision-making, both institutions have successfully bridged this gap, significantly contributing to the growth and credibility of Indonesia's sharia finance sector.

Nevertheless, challenges remain, particularly in interpreting broadly scoped fatwas within specific regulatory contexts and responding to the fast-paced evolution of financial technology. Addressing these issues may require adaptive strategies, such as forming a specialized committee to handle fintech-related fatwas and regulatory innovations. Furthermore, the joint emphasis on capacity building is in line with global best practices in regulatory governance. Training initiatives not only enhance institutional competencies but also cultivate mutual understanding and trust, reinforcing the long-term collaboration between the DSN and OJK. Overall, these findings have important implications for the future of sharia finance in Indonesia, as a well-coordinated regulatory framework strengthens investor confidence, supports innovation, and positions the country as a global leader in Islamic finance.

5. CONCLUSION

The collaboration between the National Sharia Board and the Financial Services Authority is pivotal for the advancement of sharia financial regulations in Indonesia. This study highlights the mechanisms and strategies that drive their synergy, including collaborative decision-making, role clarity, and capacity-building initiatives. While challenges in integrating sharia principles into modern financial frameworks remain, structured communication and adaptive policy-making have facilitated progress. The findings underscore the importance of a well-coordinated regulatory environment in promoting sustainable growth and innovation in the sharia finance sector. By addressing existing challenges and leveraging institutional strengths, Indonesia can solidify its position as a global leader in Islamic finance, offering a model for other nations to emulate.

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