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# Legal Review of the Effect of OJK Regulation Number 11/POJK.03/2016 on the Implementation of Sharia Banking Business Activities on the Sustainability of the Sharia Financial Industry in Indonesia

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**ABSTRACT**

This study analyzes the impact of OJK Regulation Number 11/POJK.03/2016 on the implementation of sharia banking business activities and its role in ensuring the sustainability of the sharia financial industry in Indonesia. The regulation aims to strengthen governance, risk management, and transparency in sharia banking while promoting alignment with Islamic principles. Employing a qualitative juridical analysis, this research evaluates the regulation's effectiveness and identifies challenges faced by sharia banking institutions, including resource limitations, knowledge gaps, and regulatory ambiguities. The findings reveal that while the regulation has significantly improved compliance, risk management, and public trust, challenges persist in its practical implementation. Recommendations include capacity building, regulatory clarity, and technological adoption to optimize the regulation's impact. This study contributes to the understanding of regulatory frameworks in Islamic finance and offers insights for enhancing the resilience and sustainability of Indonesia's sharia financial industry.



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## 1. INTRODUCTION

The sharia financial industry in Indonesia has experienced significant growth, becoming a crucial component of the national economy. This expansion is driven by a combination of public demand for financial services that adhere to Islamic principles and strategic government initiatives. The implementation of Law Number 21 of 2008 has provided a legal framework that supports the sustainability and growth of Islamic financial institutions, ensuring legal certainty and facilitating sharia economic activities [1]. This growth is further supported by the National Sharia Financial Economics Committee (KNEKS), which aims to enhance the effectiveness of national development plans in the sharia finance sector [2]. Islamic banking and sukuk (Islamic bonds) have shown a positive and significant impact on Indonesia's economic growth, highlighting the importance of these instruments in the financial sector [3]. However, Islamic stocks and mutual funds have not demonstrated significant effects, indicating areas for potential policy improvement [4]. Challenges in the sharia financial industry include ensuring inclusivity and overcoming misconceptions about exclusivity. Nevertheless, the industry presents significant opportunities for sustainable and equitable development by adhering to principles like balance and justice [5]. The National Sharia Financial Economics Committee (KNEKS) plays a pivotal role in promoting sharia finance as a rational and inclusive choice, aiming to position Indonesia as a global player in the Islamic finance industry [6].

The regulation of sharia banking by the Financial Services Authority (OJK) through Regulation Number 11/POJK.03/2016 is crucial in aligning Islamic banking with Islamic jurisprudence and national financial policies. It enhances governance, risk management, and operational efficiency, fostering financial inclusion, public trust, and sustainable economic growth. OJK ensures sharia compliance by adhering to laws, regulations, and fatwas from the National Sharia Council, reflecting the principles of Pancasila and the Constitution [7]. Additionally, OJK regulates, supervises, and enforces sharia principles to maintain ethical standards [8]. Key regulations, such as Financial Services Authority Regulation No. 24/POJK.03/2015, manage risks related to customer funds through careful supervision and routine inspections, ensuring sector stability and public trust [9]. OJK also promotes financial inclusion by expanding microfinance, enhancing sharia financial literacy, and collaborating with stakeholders to improve accessibility. These efforts drive sustainable and inclusive economic growth, highlighting the importance of public education and awareness programs [10].

Despite its potential benefits, the implementation of OJK Regulation Number 11/POJK.03/2016 poses challenges. Issues such as limited understanding of regulatory requirements among stakeholders, inconsistencies in application, and the capacity of sharia banking institutions to meet the prescribed standards remain areas of concern. These challenges raise critical questions about the regulation's effectiveness in achieving its intended goals and its broader impact on the sustainability of the sharia financial industry in Indonesia.

This paper aims to analyze the juridical implications of OJK Regulation Number 11/POJK.03/2016 on the implementation of sharia banking business activities and its contribution to the sustainability of the sharia financial industry. By employing a juridical analysis approach, the study seeks to evaluate the regulation's effectiveness, identify challenges in its implementation, and provide recommendations for policymakers and practitioners to optimize its impact.

The study addresses the following research questions:

*How does OJK Regulation Number 11/POJK.03/2016 influence the implementation of sharia banking business activities in Indonesia?*

*What are the key challenges faced by sharia banking institutions in complying with the regulation?*

*How does the regulation contribute to the sustainability of the sharia financial industry in Indonesia?*

## 2. LITERATURE REVIEW

### *2.1 Sharia Banking and Its Principles*

Sharia banking operates under Islamic law, emphasizing ethical investments, risk-sharing, and social responsibility. Its growth in Indonesia reflects rising demand for Islamic financial products, supported by financing mechanisms such as mudarabah, musyarakah, murabahah, istisna, and ijarah, which comply with Sharia principles by avoiding riba, gharar, and maysir. Beyond financial intermediation, sharia banking fosters inclusive economic development and ethical practices. In fintech, Sharia compliance integrates modern technologies with Islamic principles, emphasizing the prohibition of riba, gharar, and haram investments, supported by collaboration among scholars, experts, and regulators [4]. Similarly, sharia marketing ethics promote honesty, transparency, and balanced interests, enhancing customer loyalty and business growth, despite challenges in integrating technology and competing with non-Sharia firms [11]. Sharia banking also contributes to economic stability through prudent risk management and ethical investments, as demonstrated by Bank BTPN Syariah [12]. However, challenges such as differing interpretations of usury and limited market share remain [13]. As a key component of Islamic economics, sharia banking seeks to achieve ethical and spiritual well-being while informing policy and enhancing service delivery [14].

### *2.2 Regulatory Framework for Sharia Banking in Indonesia*

The legal foundation for sharia banking in Indonesia is established under Law No. 21 of 2008, which integrates Islamic principles into the national financial system and ensures compliance with broader financial regulations. This legal certainty supports Islamic economic activities and dispute resolution through laws such as Law No. 3 of 2006 on Religious Courts and Law No. 4 of 2004 on Judicial Power [15]. The Financial Services Authority (OJK), through Regulation Number 11/POJK.03/2016, enhances governance, risk management, and transparency to strengthen the resilience and competitiveness of sharia banks [16]. The regulation highlights the Sharia Supervisory Board (DPS), composed of muamalah sharia experts, tasked with ensuring compliance with sharia principles and implementing national sharia board decisions [17]. The sharia banking legal system integrates legal substance, structure, and culture with the national system, though some regulations still resemble conventional banking practices [18]. Legal politics drive the growth of sharia banking by aligning Islamic law with national laws to support industry development and governance [5].

### *2.3 The Role of Regulation in Financial Sustainability*

Regulatory frameworks in sharia banking are vital for aligning Islamic principles with modern financial practices, ensuring stability and integrity. In Indonesia, Law Number 21 of 2008 provides legal certainty for Islamic financial institutions, facilitating operations within the sharia economic framework and resolving disputes to promote social justice and sustainability [19]. Comprehensive regulations build public trust, enhance financial inclusion, and attract investments through transparency and risk reduction [19]–[21]. However, limited awareness, inconsistent enforcement, and institutional capacity constraints hinder effective implementation [5], [22]. Improvements include harmonizing regulations, fostering collaboration among stakeholders, and integrating technology to enhance accessibility, efficiency, and transparency in sharia banking, supported by regulatory engagement to encourage innovation [23].

### *2.4 Sustainability in the Sharia Financial Industry*

Sustainability in the sharia financial industry involves balancing economic, social, and environmental goals while adhering to Islamic principles. Sharia banks contribute to sustainable development by promoting ethical investments, such as green sukuk, which finance environmentally friendly projects and reduce CO2 emissions, underscoring their role in supporting green investments [24]–[26]. These banks also support small and medium-sized enterprises (SMEs) and promote financial inclusion, aligning with sustainability objectives and Islamic values [24]. Additionally, integrating Environmental, Social, and Governance (ESG) principles into Islamic finance enhances financial outcomes while adhering to sharia principles [27]. However, challenges such as limited product innovation, inadequate infrastructure, and regulatory compliance gaps hinder their contributions to sustainability [4], [5]. Addressing these issues requires collaborative efforts among regulators, industry players, and stakeholders to create a robust ecosystem that supports the growth and sustainability of the sharia financial industry [24].

*2.5 Research Gap and Focus*

While existing literature emphasizes the importance of regulations in the growth of sharia banking, there is limited research on the specific impact of OJK Regulation Number 11/POJK.03/2016 on the implementation of sharia banking business activities and the sustainability of the sharia financial industry in Indonesia. This study seeks to fill this gap by providing a juridical analysis of the regulation, evaluating its effectiveness, and identifying challenges and opportunities for improvement.

## 3. METHODS

*3.1 Research Design*

This study employs a qualitative juridical analysis method to evaluate the impact of OJK Regulation Number 11/POJK.03/2016 on the implementation of sharia banking business activities and the sustainability of the sharia financial industry in Indonesia. A juridical approach focuses on the examination of legal principles, regulations, and their practical application in the sharia banking sector. The research also incorporates a descriptive approach to analyze the current state and challenges faced by the industry under the regulatory framework.

*3.2 Data Sources*

The research utilizes both primary and secondary data sources. Primary data is collected through the analysis of OJK Regulation Number 11/POJK.03/2016, relevant sharia banking laws, and official guidelines issued by OJK and other regulatory bodies. Secondary data includes academic journals, books, industry reports, and statistical data from credible sources such as OJK, Bank Indonesia, and the Ministry of Finance. Additionally, previous studies on sharia banking and regulatory impacts are reviewed to support the analysis.

*3.3 Data Collection Methods*

The data collection process involves document analysis, which includes reviewing legal texts, regulations, and policy documents to understand the content and implications of OJK Regulation Number 11/POJK.03/2016. It also incorporates a literature review to identify and synthesize relevant academic studies and reports on sharia banking, financial regulations, and sustainability in the Islamic financial industry. Additionally, case studies of specific sharia banking institutions in Indonesia are examined to understand the practical application and challenges of implementing the regulation.

*3.4 Data Analysis Techniques*

The data analysis follows a three-step process. First, content analysis involves a systematic examination of legal and regulatory documents to extract key provisions and assess their implications for sharia banking. Second, comparative analysis evaluates Indonesia's regulatory framework against best practices in other countries with developed Islamic financial industries to identify gaps and areas for improvement. Lastly, thematic analysis identifies recurring themes related to challenges, opportunities, and sustainability impacts of OJK Regulation Number 11/POJK.03/2016, based on the reviewed literature and case studies.

## 4. RESULTS AND DISCUSSION

***4.1 Overview of OJK Regulation Number 11/POJK.03/2016***

OJK Regulation Number 11/POJK.03/2016 outlines key provisions aimed at strengthening the operational framework and governance of sharia banking in Indonesia. The regulation emphasizes the following:

1) Mandates the establishment of a Sharia Supervisory Board (DPS) within sharia banks to ensure compliance with Islamic principles.
2) Requires sharia banks to implement comprehensive risk management strategies to mitigate financial, operational, and market risks.

3) Enhances reporting standards to promote accountability and build public trust.
4) Encourages the development of sharia-compliant products and services to meet diverse customer needs.
5) These provisions aim to address both the ethical and operational aspects of sharia banking, ensuring alignment with Islamic principles while fostering financial sustainability.

***4.2 Impact on the Implementation of Sharia Banking Business Activities***

The implementation of OJK Regulation Number 11/POJK.03/2016 has led to several positive outcomes in the sharia banking sector:

1) The regulation has strengthened adherence to sharia principles by mandating oversight by the DPS. This has enhanced the ethical credibility of sharia banking operations.
2) By enforcing robust risk management practices, sharia banks have become more resilient to financial shocks and market fluctuations.
3) The emphasis on innovation has resulted in the introduction of new sharia-compliant financial products, such as sukuk (Islamic bonds) and Islamic microfinance services.
4) Improved transparency and governance have fostered greater public confidence in sharia banking institutions.

However, challenges persist, including the limited capacity of some sharia banks to fully implement the regulation due to resource constraints and lack of expertise in risk management.

***4.3 Challenges in Regulatory Implementation***

The study identifies several challenges faced by sharia banking institutions in complying with OJK Regulation Number 11/POJK.03/2016. Knowledge gaps among smaller sharia banks and their stakeholders hinder effective implementation due to limited understanding of the regulation. Resource constraints, particularly in smaller institutions, result in inadequate financial and human resources to meet governance and risk management requirements. Regulatory ambiguities in certain provisions lead to inconsistencies in interpretation and application, further complicating compliance. Additionally, technological limitations, including the lack of advanced digital infrastructure, restrict the ability of some institutions to meet reporting and transparency standards.

***4.4 Contribution to the Sustainability of the Sharia Financial Industry***

OJK Regulation Number 11/POJK.03/2016 has contributed to the sustainability of the sharia financial industry in the following ways:

1) By enforcing strong governance practices, the regulation has enhanced the operational integrity of sharia banks.
2) The promotion of innovative financial products has increased access to financial services for underserved segments of the population.
3) The alignment of banking practices with Islamic principles has positioned sharia banks as leaders in ethical finance, attracting socially conscious investors.
4) Improved risk management practices have enhanced the sector’s ability to withstand economic and financial crises.

***4.5 Comparative Analysis with Global Practices***

A comparison with countries such as Malaysia and the UAE reveals that Indonesia's regulatory framework is comprehensive but faces gaps in implementation. For example, Malaysia's Islamic finance sector benefits from stronger integration with national development plans and better access to training programs for industry practitioners. Indonesia's regulatory framework, while addressing critical areas like sharia finance and education, still struggles with fragmented implementation and lack of alignment with national strategies. By adopting strategies similar to Malaysia's, such as integrating Islamic finance into national development plans and providing robust training programs, Indonesia could enhance its regulatory impact and address existing gaps effectively.

Challenges in implementation are evident across various sectors in Indonesia. In digital rights, the lack of legal certainty around internet privileges hampers the country's digital competitiveness compared to Malaysia, where clear legislation governs internet rights [28]. In sharia finance, fragmented regulations across institutions and the need for cohesive standards highlight a gap that could be addressed by adopting Malaysia's integrated approach [29]. Similarly, while the regulatory framework for Islamic education in Indonesia provides clarity, it faces issues with parity between Islamic and general education policies, compounded by political efforts that hinder policy development. Potential improvements include aligning regulatory frameworks with national plans and enhancing training programs to ensure effective policy implementation. These measures could significantly strengthen Indonesia's regulatory frameworks and foster sustainable growth across sectors.

***4.6 Recommendations for Improvement***

To address the challenges and optimize the regulation's impact, the following recommendations are proposed:

1) Conduct training programs for sharia banking staff to improve understanding and implementation of the regulation.
2) Provide financial and technical support to smaller sharia banks to meet regulatory requirements.
3) Issue detailed guidelines to resolve ambiguities in the regulation.
4) Encourage the adoption of digital tools to improve compliance with transparency and reporting standards.
5) Foster collaboration between regulators, sharia banks, and industry experts to create a supportive ecosystem for sharia banking.

## 5. CONCLUSION

OJK Regulation Number 11/POJK.03/2016 plays a pivotal role in shaping the governance, operational framework, and sustainability of the sharia banking sector in Indonesia. The regulation has successfully enhanced compliance with Islamic principles, strengthened risk management, and fostered public trust in sharia banking institutions. Despite these achievements, challenges such as limited institutional capacity, knowledge gaps, and technological constraints hinder the full realization of its objectives.

To address these issues, this study recommends targeted capacity-building programs, financial and technical support for smaller sharia banks, and enhanced regulatory clarity. Additionally, the adoption of digital tools and systems is essential for improving transparency and efficiency in compliance.

The findings highlight the regulation's potential to serve as a foundation for ethical and sustainable finance in Indonesia. However, sustained efforts and collaboration among regulators, industry practitioners, and stakeholders are required to overcome challenges and ensure the continued growth and resilience of the sharia financial industry. This research provides valuable insights for policymakers and practitioners striving to enhance the competitiveness and sustainability of Islamic finance in Indonesia.

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