

Impact and risk management of sharia non-compliance in islamic banking

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Abstract

The purpose of this study is to determine the impact of the risk of sharia non-compliance on Islamic banking and how to manage this risk. This research uses the literature review method by collecting, identifying, compiling and analyzing data from national and international journals. Based on the analysis of the literature review, it was found that the risk of Sharia non-compliance is an important aspect that needs attention. If Islamic banks fail to comply with Sharia principles, it can cause reputational risks that can ultimately disrupt the existence of Islamic banks. Customers who lose trust in Islamic banks will make massive withdrawals and account closures, thereby increasing net losses in Islamic bank revenues. Ultimately, Islamic banks will face liquidity problems, leading to business license revocation and bankruptcy. In addition, Bank Indonesia will provide administrative sanctions to Islamic banks that cannot comply with Sharia principles. Thus, the impact of the risk of Sharia non-compliance is a serious matter to pay attention to because it can affect the business sustainability of Islamic banks. Proper and consistent implementation of Sharia governance is needed to manage these risks.

Keywords: Sharia Non-Compliance Risk, Sharia Banking, Sharia Supervisory Board, Reputation Risk, Risk Management

INTRODUCTION

Islamic banking is an Islamic financial institution whose operations are guided by Sharia principles that prohibit interest, unclear and doubtful matters (gharar), non-productive speculative activities, and illegitimate or illegitimate matters (Ascarya & Yumanita, 2005). The principle of financing is governed by Islamic rules on transactions "Fiqh Al-Muamalat" and follows the regulation of Profit and Loss Sharing (PLS) and non-PLS (Obaidullah, 2005). In contrast with conventional banks that apply an interest system, Islamic banks apply a profit-sharing system, when borrowers and lenders share risks and profits with the distribution according to the agreement so that no party will be harmed (Ascarya & Yumanita, 2005)

In dual system banking, Islamic banks often face the risk of withdrawals by large depositors who will withdraw funds when Islamic banks do not have significant revenues or profit sharing that is lower than conventional bank interest. This difference in the distribution and collection of funds causes Islamic banks more significant risks than conventional banks (Mukhibad et al., 2022). Of the various types of risks faced by Islamic banks, experts emphasize several risks, including bankruptcy risk (Grassa, 2016; Jabari & Muhammad, 2021; Lee et al., 2020; Saif-Alyousfi & Saha, 2021; Trinh et al., 2020), liquidity risk (Ben et al., 2014; Effendi & Disman, 2017), credit risk (Najwa et al., 2019; Louhichi et al., 2019; Safiullah & Syamsuddin, 2018; Kabir et al., 2015; Isa & Lee, 2020; Khan et al., 2020; Mahdi & Abbes, 2018; Aljughaiman & Salama, 2019; Abedifar et al., 2013), and the risk of sharia non-compliance (Basiruddin & Ahmed, 2020; Mukhibad et al., 2022).

The risk of Sharia non-compliance is one of the things that distinguishes Islamic banks from conventional banks. Because sharia principles guide Islamic banks, there is a risk of non-compliance. Sharia Non-Compliance Risk (SNCR) is a risk associated with the inability or failure of Islamic financial institutions to comply with sharia provisions (Oz et al., 2016). Such failure constitutes an offence that includes products, services or activities that do not follow sharia. The risk of Sharia non-compliance can endanger Islamic financial transactions, such as causing income received to be illegitimate (Mustapha et al., 2021). In addition to the loss of revenue, the risk of Sharia non-compliance can be a mandatory breach of contract to comply with Sharia principles because there is a fiduciary role in managing depositor funds

of Islamic banks (Ginena, 2014). The risk of sharia non-compliance will also impact reputation risk (Abdullah et al., 2011). Investors and depositors not only lose trust in Islamic banks but will also withdraw their funds or close their accounts for these reputational reasons (Basiruddin & Ahmed, 2020).

The risk of Sharia non-compliance is an essential issue for Islamic banking. Failure to comply with Sharia law in the operation and management of Islamic banks can significantly affect the sustainability of Islamic banks and their reputation. However, in previous studies, there was still little discussion about the risk of sharia non-compliance. Therefore, researchers want to dig deeper into the importance of the risk of Sharia non-compliance in Sharia banking so that Sharia bank managers are aware of the significant impacts of the risk of Sharia non-compliance so these risks can be minimized immediately.

Problem Formulation: What is the impact of the risk of Sharia non-compliance in Islamic Banking, and how to manage the risk?

Research Objective: To determine the impact of Sharia non-compliance risk on Sharia banking and Sharia non-compliance risk management.

LITERATURE REVIEW

Sharia Banking

Based on Law Number 21 of 2008 Article 1, Islamic banking is everything that concerns Islamic banks and Sharia business units, including institutions, business activities, and ways and processes of carrying out their business activities. As an Islamic financial institution, sharia banks have a responsibility that is not only limited to meeting the financial needs of interested parties, but the public also needs to be given assurance that all operational activities carried out by sharia banks are in accordance with established sharia principles (Salamah & Kusumaningtias, 2019). Islamic banks follow sharia principles under a governance structure different from conventional banks (Mihajat, 2018). The main differentiator between Islamic and conventional banking is compliance with Sharia rules and principles. In principle, conventional banks use interest in operating and achieving the maximum profit, while Islamic banks operate using the principle of profit sharing to avoid usury. In addition, Islamic banks have sharia supervisory boards, while conventional banks do not exist. Other differences are legal aspects, organizational structure, finance business, and work environment (Mukti & Suprayogi, 2019).

The primary function of banking is as an intermediary institution in charge of collecting and distributing public funds. Apart from being an intermediary institution, banks also have several other functions mentioned by Julius (2012: 135), including Agent of Trust, Agent of Development, and Agent of Service. These functions also apply to Islamic banking but must be based on Sharia principles. Thus, as a Sharia financial institution, Sharia banking has the function of collecting funds from the public in the form of deposits and investments following Sharia principles, channelling funds to the public in the form of financing following sharia principles, and providing services and other bank products following sharia principles (Putra, 2020).

Sharia Compliance and Sharia Principles

According to Antonio (2021), Sharia compliance is the adherence of Islamic banks to the fulfilment of Sharia principles. *Sharia compliance* is an aspect that distinguishes Islamic banking from conventional banking. The characteristics of Islamic bank customers who adhere to Islamic values will not save their money in Islamic banks that fail to comply with Sharia principles (Annas, 2021).

Based on Law Number 10 of 1998 concerning Amendments to Law Number 7 of 1992 concerning Banking, Article 1 Paragraph 13 explains that Sharia Principles are rules of agreement based on Islamic law between banks and other parties for the storage of funds and financing business activities, or other activities declared following sharia, including financing based on the principle of profit sharing (*mudharabah*), financing based on the principle of capital participation (*musharakah*), the principle of buying and selling goods by obtaining profits (*murabahah*), or financing capital goods based on the principle of pure rent without choice (*ijarah*), or with the option of transferring ownership of goods rented from the bank by other parties (*ijarah wa iqtina*).

Sharia principles are the foundation of Islamic banking, both ideologically and operationally. So, products and business activities must comply with Sharia principles and include legal relationships (Putra,

2020). According to Hanif (2012) in the journal *Economic Substance or Legal Form: An Evaluation of Islamic Finance Practice*, several principles of Islamic finance have been expressed by scholars, namely prohibiting interest and riba in financial transactions, avoiding gharar (obscurity), avoiding maysir (speculation), applying profit and loss sharing, and funding for halal businesses.

Sharia Bank, as a Sharia Financial Institution, its business activities are bound by a contract based on the principles stated in Article 21 of Supreme Court Regulation Number 2 of 2008 concerning the Compilation of Sharia Economic Law (KHES). These principles include ikhtiyari or voluntary, Amanah or keeping promises, ikhtiyati (prudence), luz/unchanging, mutual benefit, taqiyah (equality), transparency, ability, tafsir or convenience, good faith and halal cause.

Shariah Bank Risks and Shariah Non-compliance Risks

According to Syed Othman Alhabshi, et al. (2012), the risk is uncertainty about future or ongoing losses. Risk describes conditions when there is uncertainty in the outcome, which can prevent an entity from achieving its goals (Puteri Nur Farah Naadia & Khairuddin, 2021). Risk in the banking context is a potential event, both foreseeable and unforeseen that negatively impacts the bank's income and capital. Article 5 paragraph (1) of PBI No.13/23/PBI/2011 explains that there are several types of risks faced by Islamic banks, namely operational risk, market risk, credit risk, legal risk, liquidity risk, strategic risk, and compliance risk (Afandi, 2018).

Sharah Non-Compliance Risk (SNCR) is a risk associated with the inability or failure of Islamic financial institutions to comply with sharia provisions (Oz et al., 2016). Such failure constitutes an offence that includes products, services or activities that do not follow sharia. IFSB guidelines state that Islamic financial services (IIFS) should have adequate systems and controls, including the Shariah Supervisory Board, to ensure compliance with sharia rules and principles (Islamic et al., 2005). The risk of Sharia non-compliance is included in operational considerations. Ensuring operations follow applicable Sharia rules and principles following fatwas, policies and procedures approved by IIFS' Sharia Board (Islamic Financial Services Council, 2005) is relevant.

On the one hand, applying profit-and-loss-sharing of Islamic products improves certain risks for Islamic banks. However, on the other hand, it also opens up opportunities for Islamic banks to face new risks. Process and legal risks in Islamic banks are increasing because of their emphasis on contract drafting and contract requirements, where all transaction stages must always be carried out in a specific order. The failure of the bank to manage this risk will increase the bank's operational costs. Thus, to a significant degree, failure to manage Shariah Non-Compliance Risk can expose banks to reputational and bankruptcy risk (Global Islamic Report, 2017). *Bisnis.com* on November 3, 2015, in Malang, Head of the Banking Special Examination and Investigation Department of the Financial Services Authority (OJK) Tutty Kustiati explained the fact that bank operations have a reasonably high complexity, allowing irregularities, both administratively and criminally. "To reduce the potential for criminal irregularities, banks are required to carry out their operations by observing the precautionary principle, so that not only banks avoid problems, but what is far more critical is that the trust of the public who keep their funds in the bank can be maintained (Anam, 2015).

The risk of Sharia non-compliance can endanger Islamic financial transactions, such as causing income received to be illegitimate (Mustapha et al., 2021). In addition to the loss of revenue, the risk of Sharia non-compliance can be a mandatory breach of contract to comply with Sharia principles because there is a fiduciary role in managing depositor funds of Islamic banks (Ginena, 2014). The risk of sharia non-compliance will also impact reputation risk (Abdullah et al., 2011). Some Indonesians also criticize Sharia banking because it is considered that there are irregularities even outside of the Sharia corridor. Starting from those who question the implementation of existing products, often tricked transactions, and the insensitivity of Islamic banks to social problems (Kompasiana.com, 2020). Likewise, there are several cases of irregularities that occurred in sharia banks in Indonesia, including a criminal case of corruption in providing financing facilities from PT Bank Syariah Mandiri Sidoarjo Branch to PT Hasta Mulya Putra in 2013 which allegedly caused losses to the state of IDR 14.2 billion (Al Ayyubi, 2021), the case of misuse of PT Bank Mega Syariah customer funds amounting to IDR 20 billion which occurred in 2015 with the convict sentenced to 6 years in prison and a fine of IDR 1 billion (*Bisnis.com*, 2021),

and the case of alleged fictitious credit PT Bank West Java and Banten (BJB) Syariah in 2018 which caused losses to the company amounting to IDR 548 billion (Arief, 2019). Apart from that, there was also the case of businessman Yusuf Hamka in 2021 who was suspected of being a victim of extortion after being entangled in loan interest guarantees by a sharia bank. Sharia economics observer, Ronald Rulindo, also said that negative statements regarding Islamic banks have become widespread and have made people who are antipathetic even more antipathetic (Zuraya, 2021). The risk of Sharia non-compliance is an essential issue for Islamic banking because failure to comply with Sharia law in the operation and management of Islamic banks can significantly affect the sustainability of Islamic banks and their reputation.

Board of Commissioners and Sharia Supervisory Board

Bank Indonesia Regulation No. 13/23/PBI/2011 states in Article 3 that active supervision of the Board of Commissioners, Board of Directors, and Sharia Supervisory Board is one element of the implementation of Islamic banking risk management (Mutmainah, 2016). The Board of Commissioners is obliged to supervise the implementation of Good Corporate Governance (GCG) in every business activity of Islamic banks. He is primarily responsible for selecting a competent and ethical CEO and monitoring management's operational, financial, and sustainability strategy objectives (Rezaee, 2007). In addition to supervision, the board of commissioners has an essential role in terms of advisory function.

The role of the board of commissioners in mitigating the risk of Sharia non-compliance works through an indirect relationship with Sharia audits. Because high-quality boards of commissioners have more reputation capital, they are expected to be more concerned with reputational losses and involved in bank operations, including risking sharia assessments (Basiruddin & Ahmed, 2020).

It is affirmed in Article 24 and Article 25 of the Sharia Banking Law that Sharia Commercial Banks, Sharia People's Financing Banks and UUS are prohibited from carrying out business activities contrary to Sharia principles (Putra, 2020). So, it is explained in Article 109 of Law Number 40 of 2007 concerning Limited Liability Companies that companies that carry out business activities based on Sharia principles must have a Sharia Supervisory Board (SSB), which is tasked with providing advice to the directors and supervising the company's activities following sharia principles. The Sharia Supervisory Board is an independent body tasked with directing, consulting, evaluating, and supervising the activities of Islamic banks in order to ensure that the business activities of Islamic banks comply with sharia principles as determined by fatwas and Islamic sharia (Mutmainah, 2016). When viewed from its function, this SSB complements the supervisory duties given by the commissioner. The Islamic supervisory board gives credibility to the operations of Islamic banks to one of the key stakeholders, the depositors. The performance of the Sharia supervisory board is based on the practices and attitudes of the entire board of commissioners (Basiruddin & Ahmed, 2020). Collectively, to mitigate the risk of Sharia non-compliance, Islamic banks are expected to have adequate systems and controls, including good governance.

RESEARCH METHODOLOGY

The method used in this research is a literature review study, which is a study conducted to analyze selected literature from several sources to produce new conclusions and findings. The journals used in this study discuss the topic "Impact and Risk Management of Sharia Non-compliance in Islamic Banking". These journals are obtained through searches on Google Scholar and Emerald, which consist of international and national journals. Researchers use analytical descriptive methods by collecting, identifying, compiling and analyzing various data. The following are the stages of research with the literature review method:

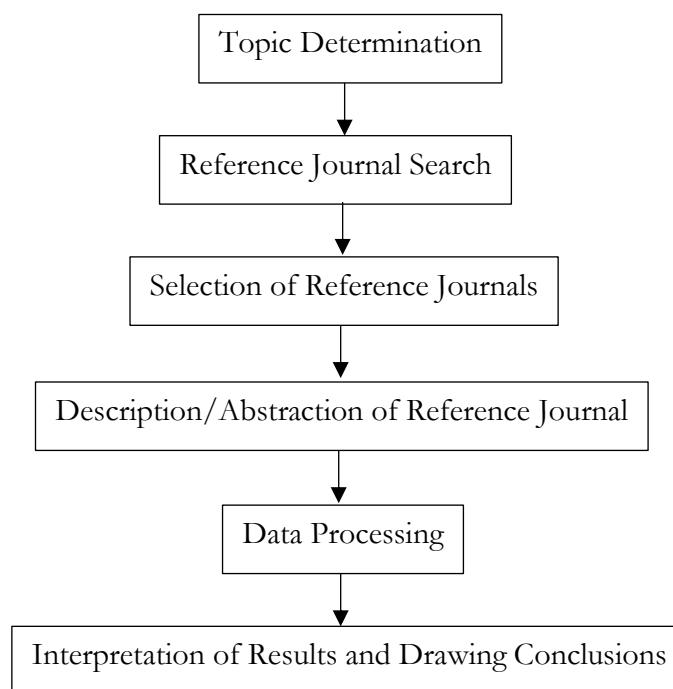


Figure 1. The Stages of Research

At the selection stage, reference journals are carried out to determine the feasibility of several reference journals obtained by reviewing several main aspects: indexer reputation, publisher reputation, journal quality, content suitability, and data completeness. The following are the results of the eligibility selection of reference journals:

Table 1. Selection Results for The Eligibility of Reference Journals.

No	Year	Article Title	Volume/Number	Writer	Journal Name
1	2020	Compliance Risk Management in Islamic Banking	Volume 3 No 2	Robby Yudia Putra	Jurist Diction
2	2017	The Urgency of Sharia Compliance in Sharia Banking	Volume 2, No. 1 pages 100 - 120	Wulpiah	Asy-Syar'iyah: Journal of Sharia Science and Islamic Banking
3	2021	The Urgency of Sharia Compliance in Sharia Banking	Volume 14 No.2	Dwi Kusumaningrum, Mohammad Yusufal, Nabilatul Mumtazah P.H, Yahya Fuad	ECONOMIC DYNAMICS Journal of Economics and Business
4	2020	Corporate governance and Shariah non-compliant risk in Islamic banks: evidence from Southeast Asia	Volume 20 No. 2 2020, pp. 240-262	Rohaida Basiruddin dan Habib Ahmed	Journal of Corporate Governance
5	2022	Corporate governance and Islamic law compliance risk	Volume 10 No 01	Hasan Mukhibad, Ahmad Nurkhin, Kwat Waluyo Jati & Prabowo Yudo Jayanto	Cogent Economics & Finance
6	2019	Compliance Risk Management in Syariah Banking	Volume 3 No. 1	Diana Novita	Eksisbank

The results of the feasibility selection of reference journals from six journals screened and selected for data completeness, three journals were chosen to be used as the main reference journals because they have sufficient completeness and similarity of data to be compared. The selected reference journal is Research 1, entitled "Compliance Risk Management in Sharia Banking", written by Robby Yudia Putra, related to the impact and other risks arising from the risk of Sharia non-compliance and the management of Sharia non-compliance risk. Research 2, entitled "Corporate governance and Shariah non-compliant risk in Islamic banks: evidence from Southeast Asia" written by Rohaida Basiruddin and Habib Ahmed, related to the importance of the risk of sharia non-compliance and its relationship with corporate governance. In addition to these journals, this study also uses the Law of the Republic of Indonesia Number 21 of 2008 concerning Sharia Banking as a reference.

DISCUSSION

Sharia Banking is a financial institution that operates in accordance with sharia principles. So that in Islamic banking business activities must not contain elements of usury, maisir, gharar, haram and tyranny. However, sharia compliance is not limited to its business activities, but also involves solving problems between Islamic banks and their customers. Based on Article 21 of Supreme Court Regulation Number 2 of 2008 concerning the Compilation of Sharia Economic Law (KHES), contracts in Islamic banking must be based on the following principles:

- a. Ikhtiyari/Voluntary, that is, every contract is carried out at the will of the parties, without any coercion from other parties.
- b. Amanah, namely the contract must be carried out by the parties in accordance with the established agreement.
- c. Ikhtiyati / Prudence, that is, every contract is carried out with careful consideration and carried out precisely and carefully.
- d. Luzum/Unchanged, i.e. the contract is carried out with clear goals and calculations to avoid maisir.
- e. Mutual benefit.
- f. Taswiyah/Equality. The parties have equal standing, rights and obligations.
- g. Transparency
- h. Ability. The agreement is carried out based on the ability of each party, so that no one party is burdened.
- i. Taisir/Convenience. Akad is carried out by providing mutual convenience to each party in fulfilling their agreements.
- j. It's good.
- k. The reason is halal.

If Islamic banks fail to comply with sharia principles, it will cause a risk of sharia non-compliance. Shariah Non Compliance Risk (SNCR) is a risk associated with the inability of Islamic financial institutions to comply with sharia provisions (Oz et al., 2016). There are several risk criteria for sharia non-compliance according to Lahsasna (2014):

- a. The risk of sharia non-compliance focuses on the risk management framework.
- b. The risk of sharia non-compliance related to financial management, services or investment needs to be considered.
- c. The risk of sharia non-compliance is consistent with the overall processes of Islamic financial institutions.
- d. The risk of sharia non-compliance ensures that Islamic financial institutions will carry out financial transactions in accordance with sharia principles.
- e. The risk of sharia non-compliance must understand the procedures, policies and decisions made by Islamic financial institutions.
- f. The risk of sharia non-compliance will observe the provisions of documents related to the agreed contract.

According to Ibid (2011), there are 3 (three) types of risk levels of sharia non-compliance:

- a. High. The risk of sharia non-compliance caused by the risk of contracts that do not apply without improvement and profits obtained are not recognized.
- b. Medium. The risk of sharia non-compliance due to non-compliance with the contract, but it can still be corrected and there is no need to terminate the contract.
- c. Low. The risk of low level of sharia non-compliance is lower than that of high and medium levels, such as in marketing advertisements that use models that are not in accordance with sharia regulations.

Failure to comply with Sharia principles in the operation and management of Islamic banks can result in transactions that have occurred being declared void so that income from these activities or products is not recognized in the bank's books and used as a source of benevolent funds (Basiruddin & Ahmed, 2020). This resulted in a net loss of transactions at Islamic banks. In addition to loss of revenue, non-compliance with Sharia can also pose reputational risks. According to Article 1 point 12 of the Financial Services Authority Regulation Number 65/POJK.03/2016 concerning the Implementation of Risk Management for Sharia Commercial Banks and Sharia Business Units, reputation risk is a risk that arises due to a decrease in the level of stakeholder trust caused by negative perceptions of banks. The decrease in the level of trust can endanger Islamic banks because, in addition to raising doubts in the public about using Islamic bank services, it will also cause a decrease in profits at Islamic banks. This is due to the dependence of Islamic banks' financial stability and capability on customer trust (Grais & Pellegrini, 2006). If Islamic banks fail to comply with Sharia principles, then customers who want Islamic financial management will lose trust in Islamic banks, which can damage their reputation (Abd. Shomad). When the reputation of Islamic banks is damaged, customers will make massive withdrawals of third-party funds or close accounts. In a survey conducted in three countries, Chapra & Ahmed (2002) found that a large percentage of depositors and investors of Islamic financial institutions will transfer their accounts to other banks if there are consistent sharia violations over a period. The withdrawal and closure of the account may cause liquidity problems for Islamic banks. Bank Indonesia will also revoke the business license of the Islamic bank, and the Islamic bank will end in bankruptcy (Trisadini).

Based on Article 56 of Law Number 21 of 2008 concerning Sharia Banking, Bank Indonesia stipulates administrative sanctions on Sharia Banks or UUS, members of the board of commissioners, members of the Sharia Supervisory Board, directors, and employees of Sharia Banks or Conventional Commercial Banks that have UUS, who obstruct and do not implement sharia principles in carrying out their business or duties or do not fulfil their obligations. The administrative sanctions are then contained in Article 58, which consists of:

- a. monetary fines;
- b. written reprimand;
- c. decline in the health level of Sharia Banks and UUS;
- d. prohibition to participate in clearing activities;
- e. suspension of certain business activities, both for certain branch offices and for Sharia Banks and UUS as a whole;
- f. dismissal of management of Sharia Banks and Conventional Commercial Banks that have UUS, and subsequently appoint and appoint temporary replacements until the General Meeting of Shareholders appoints a permanent replacement with the approval of Bank Indonesia;
- g. inclusion of management members, employees, and shareholders of Islamic Banks and Conventional Commercial Banks that have UUS in the list of disgraced persons in the banking sector; and/or
- h. revocation of business license.

Thus, compliance risk management is essential because these risks can have an impact on other risks that have a significant influence on the existence of Islamic banks.

According to Jamaldeen (2012), there are several ways to avoid the risk of sharia non-compliance, namely:

- a. Comply with minimum requirements from the start, such as avoiding gambling, illicit investments, and including a Sharia Supervisory Board in Corporate governance.

- b. Maintain consistent compliance with Islamic bank transactions and operations. Therefore, the role of the Sharia Supervisory Board is needed in overseeing all possible risks of sharia non-compliance with Islamic banks.
- c. Developing products that comply with sharia rules

While Sepky Mardian (2015) stated several things that need to be considered by Islamic banks to increase trust in Islamic banks, including:

- a. Improve the quality of performance of the Sharia Supervisory Board in maintaining compliance with Sharia. According to Sepky Mardian (2015), the Sharia Supervisory Board still needs to be optimal in carrying out its duties, so there are still some Islamic banks that ignore Sharia principles in running their business.
- b. Increase responsibility. Improving service and response to customers and the environment can increase Islamic banks' responsibility to increase public trust in Islamic banks.
- c. Increase fairness by accommodating and following up on customer aspirations quickly and precisely. So that customers can put their trust in Islamic banks and ultimately increase the market share of Islamic banks.
- d. Increase transparency and accountability by providing clear, precise and accurate information according to customer needs and considering customer interests in deciding policies while complying with applicable laws.

Based on the results of Diana Novita's research (2019), the results showed that the implementation of sharia non-compliance risk management must include several things, including (Novita, 2019):

- a. Active supervision of the board of commissioners, directors and sharia supervisory board in handling the risk of sharia non-compliance;
- b. Sharia banks need to add several things to each aspect in implementing policies, procedures and setting limits for the risk of sharia non-compliance;
- c. Risk identification, measurement, monitoring and control processes as well as sharia non-compliance risk management information systems;
- d. Islamic banks need to have an internal control system in implementing sharia non-compliance risk management to ensure the level of responsiveness of sharia banks to deviations from generally applicable standards.

The research results of Afriyeni and Romi Susanto (2019) also state that the function and role of the sharia supervisory board in Sharia Banks has strong relevance to sharia banking risk management, namely reputation risk, which in turn has an impact on other risks such as liquidity risk. Violations of sharia compliance that are ignored or escape the supervision of the sharia supervisory board will damage the image and credibility of the sharia bank, thereby reducing public trust in the sharia bank concerned. For this reason, the role of the sharia supervisory board in Sharia Banks must be truly optimized, the qualifications to become a sharia supervisory board must be tightened, and formalization of its role must be realized in the sharia bank (Afriyeni et al., 2019). Rahman El-Junusi (2009) also believes that implementing sharia governance can increase trust in Islamic banks. Simultaneously, Sharia Governance has an influence on the market share of Sharia Banks in Indonesia (Rosestino & Kusumaningtias, 2022). If customer trust increases in the long term, customer loyalty will also be higher, to increase the market share of Islamic banks (El Junusi, 2012). This is in line with Cahya and Kusumaningtias' opinion that one way to improve Sharia banking performance is to apply the concept of Islamic Corporate Governance (ICG) (Cahya & Kusumaningtias, 2020).

CONCLUSION

Based on the literature review analysis results in several related journals, it was concluded that the risk of Sharia non-compliance is an important aspect that needs attention. If Islamic banks fail to comply with Sharia principles, it can cause reputational risks that can ultimately disrupt the existence of Islamic banks. Customers who lose trust in Islamic banks will make massive withdrawals and account closures, thereby

increasing net losses in Islamic bank revenues. Ultimately, Islamic banks will face liquidity problems, leading to business license revocation and bankruptcy. In addition, Article 58 of Law Number 21 of 2008 concerning Sharia Banking states that Bank Indonesia will provide administrative sanctions to Islamic banks that cannot comply with Sharia principles. Thus, the risk of Sharia non-compliance is a serious matter to pay attention to because it can affect the business sustainability of Islamic banks. And to manage these risks, proper and consistent implementation of Sharia governance is needed by optimizing the role of the board of commissioners and sharia supervisory board.

SUGGESTIONS AND IMPLICATIONS

The results of this research will provide strong implications both theoretically and practically. The theoretical implications are shown by the fact that the impact of the risk of non-compliance with sharia on sharia banking is important, so that the sharia supervisory board and board of commissioners can pay more attention and be careful with these risks. Meanwhile, the practical implications for Sharia Banks involve the implementation of prevention and risk management of non-compliance with Sharia with the aim of maintaining the existence of Sharia banks.

Future research is expected to be able to dig deeper and broader into the impact of Sharia non-compliance risks and how to mitigate these risks. Furthermore, further researchers should mention the Sharia supervisory board's role in mitigating the risk of Sharia non-compliance in Sharia banks.

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