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THE AUTHORITY OF THE SHARIA SUPERVISORY BOARD IN ENSURING SHARIA COMPLIANCE IN ISLAMIC FINTECH IN INDONESIA AND MALAYSIA

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ABSTRACT

The rapid development of Islamic fintech creates new challenges for Sharia supervision, particularly concerning institutional authority, legal enforceability, and regulatory coordination. This study examines how institutional design affects the effectiveness of Sharia supervision in Islamic fintech through a comparative analysis of Indonesia and Malaysia. Employing normative legal research with statutory, conceptual, and comparative approaches, the study analyzes regulations, fatwas, institutional frameworks, and supervisory mechanisms in both jurisdictions. The findings show that Indonesia adopts a dualistic model involving the Financial Services Authority (OJK), DSN-MUI, and Sharia Supervisory Boards (DPS), while Malaysia applies a more integrated framework involving Bank Negara Malaysia and the Shariah Advisory Council (SAC). Malaysia's integrated structure provides stronger legal certainty, institutional coordination, and enforcement, whereas DPS authority in Indonesia remains constrained by its predominantly advisory character and dependence on regulatory follow-up. The study demonstrates that supervisory effectiveness depends not only on formal authority but also on legal enforceability, institutional coordination, and technological capacity. It proposes a context-sensitive reform for Indonesia through stronger inter-agency coordination, enhanced legal force of DPS recommendations, and improved technological and human-resource capacity. This study contributes to comparative Islamic financial law by offering a framework for strengthening Sharia supervision in the digital financial ecosystem.

Keywords: *Islamic fintech; Sharia Supervisory Board; Sharia compliance; comparative law; Islamic financial regulation; Indonesia; Malaysia.*

ABSTRAK

Perkembangan fintech syariah menghadirkan tantangan baru bagi pengawasan syariah, khususnya terkait kewenangan kelembagaan, daya ikat hukum, dan koordinasi regulator. Penelitian ini menganalisis pengaruh desain kelembagaan terhadap efektivitas pengawasan syariah dalam fintech syariah melalui perbandingan Indonesia dan Malaysia. Penelitian menggunakan metode yuridis normatif dengan pendekatan perundang-undangan, konseptual, dan perbandingan melalui analisis regulasi, fatwa, kerangka kelembagaan, dan mekanisme pengawasan di kedua negara. Hasil penelitian menunjukkan bahwa Indonesia menerapkan model dualistik yang melibatkan OJK, DSN-MUI, dan DPS, sedangkan Malaysia menggunakan kerangka yang lebih terintegrasi melalui Bank Negara Malaysia dan SAC. Model Malaysia memberikan kepastian hukum, koordinasi kelembagaan, dan penegakan yang lebih kuat, sementara kewenangan DPS di Indonesia masih dibatasi karakter konsultatif dan ketergantungan pada tindak lanjut regulator. Penelitian menunjukkan bahwa efektivitas pengawasan tidak hanya ditentukan oleh kewenangan formal, tetapi juga daya ikat hukum, koordinasi kelembagaan, dan kapasitas teknologi. Penelitian menawarkan reformasi kontekstual melalui penguatan koordinasi antar-lembaga, daya ikat rekomendasi DPS, serta kapasitas teknologi dan sumber daya manusia.

Kata Kunci: *fintech syariah; Dewan Pengawas Syariah; kepatuhan syariah; perbandingan hukum; regulasi keuangan syariah; Indonesia; Malaysia.*

INTRODUCTION

The advancement of digital technology has driven significant transformation in the global financial sector, including the Islamic finance industry. Financial technology (fintech) innovation offers solutions to improve service efficiency, expand financial access, and promote financial inclusion. This phenomenon not only changes the dynamics of interaction between financial service providers and consumers but also accelerates the integration of financial systems with digital technology. Within the context of the Islamic economy, Islamic fintech serves as an important instrument for integrating Sharia principles into modern technology-based financial systems (Faizi & Bin Shuib, 2024). With the emergence of Islamic fintech, financial services are no longer limited to conventional institutions but can be accessed more broadly by the public through innovative and flexible digital platforms.

The presence of Sharia fintech not only offers transactional convenience and operational efficiency but also requires compliance with Sharia principles. Such compliance includes the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling), as well as ensuring that every product and service reflects values of justice, transparency, and public welfare (Faizi & Bin Shuib, 2024). In this regard, Sharia compliance serves as the foundation for maintaining public trust in the Islamic financial industry. Without guarantees of Sharia compliance, Sharia-compliant fintech risks losing moral legitimacy and public confidence. Therefore, oversight of the implementation of Sharia principles is an integral element in the development of Sharia-compliant fintech (Khandakar et al., 2025). The standardization of Sharia compliance in fintech constitutes an important part of institutional operationalization, requiring supervision based on established regulatory frameworks.

In maintaining this compliance, the Sharia Supervisory Board plays a strategic role as an institution responsible for overseeing the operations of Islamic financial institutions. The DPS does not only function as a fatwa issuer but also holds authority to supervise, evaluate, and provide recommendations regarding business activities to ensure they remain aligned with Sharia principles. This role becomes increasingly complex alongside the evolution of fintech, which is dynamic, innovative, and technology-driven. The DPS is required to understand not only *fiqh muamalah* (Islamic commercial jurisprudence) but also the rapidly evolving developments in financial technology (Nurazizah & Vidiati, 2025). This indicates that the role of the DPS has expanded from merely a normative supervisor to a key actor in technology-based Islamic financial governance.

However, the rapid development of fintech is often not matched by adequate regulatory frameworks and supervisory authority strengthening. The rapid emergence of diverse fintech business models, such as peer-to-peer lending, crowdfunding, and algorithm-based systems, creates new challenges in Sharia supervision. This potentially creates a gap between technological innovation and compliance with Sharia principles. In practice, several issues persist, such as limited authority of the DPS, weak enforcement mechanisms, and lack of integration between regulators and Sharia authorities. These conditions indicate that Sharia fintech supervision requires a more adaptive and comprehensive approach. Supervisory challenges will face obstacles both in regulatory and technological instruments if these two aspects are not sufficiently developed, while adequate DPS authority supported by appropriate regulations and tools is necessary to ensure effective supervision.

In recent years, several studies have examined issues related to Sharia fintech and Sharia compliance. Research by Anggraeni (Anggraeni et al., 2025) highlights the regulatory challenges of Sharia fintech in Indonesia, which remain adaptive and have not fully accommodated technological developments. Meanwhile, (Alhadiansyah et al., 2023) found that an integrated Sharia supervisory system in Malaysia can improve compliance levels in technology-based financial institutions. In addition, (Mohamed & Otake, 2025)emphasize the importance of the role of the Sharia Supervisory Board (DPS) in maintaining the integrity of Islamic financial products, although they do not specifically address DPS authority in the fintech context. Other studies also indicate that governance and institutional aspects significantly influence the effectiveness of Sharia supervision in the technology-based financial industry. This shows that research on DPS authority in Islamic fintech still requires further exploration, particularly from a comparative perspective.

Indonesia and Malaysia are two Southeast Asian countries that have experienced significant development in Islamic finance, yet both have different legal and institutional characteristics. Indonesia adopts a dualistic model involving both state and religious authorities in Sharia supervision, while Malaysia tends to use a more integrated system within a single national authority framework. In practice, Malaysia is often considered more advanced in managing and supervising Islamic finance, providing a relevant comparative perspective to strengthen the role of the Sharia Supervisory Board in Indonesia (Fitriyani, 2025). Moreover, the shared socio-religious background of both countries makes this comparison more contextual and applicable, allowing it to serve as a reference for developing a more effective and adaptive Sharia supervisory system in response to technological advancement.

Based on the above discussion, there is a research gap regarding the limited study of DPS authority in the context of Islamic fintech, particularly from a comparative perspective between Indonesia and Malaysia. Most previous studies have focused more on regulatory aspects or fintech development itself, without deeply examining how DPS authority is implemented in supervisory practice. Therefore, this study introduces novelty by positioning the DPS as the central focus in analyzing Sharia fintech compliance and examining institutional differences between the two countries.

Accordingly, this paper aims to analyze the authority of the Sharia Supervisory Board in enforcing Sharia compliance in the fintech sector in Indonesia and Malaysia, as well as to identify differences and their implications for the effectiveness of Sharia supervision. The scope of discussion includes regulatory practices, institutional frameworks, and supervisory mechanisms carried out by the Sharia Supervisory Board to ensure compliance with Sharia principles. Thus, this study is expected to contribute to the development of Islamic economic law studies, particularly in strengthening the role of the Sharia Supervisory Board as an adaptive and responsive supervisory instrument in the dynamics of Sharia-based financial technology.

RESEARCH METHOD

This study employs a normative legal research method with conceptual, statutory, and comparative approaches. The normative method is selected because this research focuses on analyzing legal norms, Sharia principles, and regulatory provisions governing the authority of the Sharia Supervisory Board in ensuring compliance within Islamic fintech. The statutory approach involves examining various relevant regulations in both Indonesia and Malaysia, including provisions issued by financial authorities, Sharia regulatory bodies, and fintech-related legal instruments. Meanwhile, the conceptual approach is used to analyze the concepts of authority, Sharia supervision, and Sharia compliance from the perspective of Islamic economic law. In addition, the comparative approach is applied to examine and contrast the supervisory systems and authority of Sharia Supervisory Boards in both countries in order to identify similarities, differences, strengths, and weaknesses of each system.

The legal sources in this research consist of primary, secondary, and tertiary legal materials. Primary legal materials include laws, regulations, fatwas, and official policies related to Islamic financial supervision and fintech regulation in Indonesia and Malaysia. Secondary legal materials comprise academic literature such as books, journal articles, and previous studies relevant to the research topic, particularly those published within the last three years to ensure up-to-date relevance. Tertiary legal materials include legal dictionaries, encyclopedias, and other supporting references. These legal materials are collected through library research, while data analysis is conducted using qualitative methods by systematically interpreting and constructing legal norms.

The results of the analysis are presented in a descriptive-analytical manner to provide a comprehensive understanding of the authority of the DPS in enforcing Sharia compliance within Islamic fintech regulations in Indonesia and Malaysia.

FINDINGS AND DISCUSSION

Sharia Fintech Regulation and Supervision in Indonesia and Malaysia

The development of Islamic financial technology (fintech) in Indonesia and Malaysia has shown significant momentum over the past decade, particularly in response to the growing need for the digitalization of Sharia-based financial systems. This transformation is driven not only by technological advancement but also by increasing public demand for fast, efficient, and Sharia-compliant financial services. Islamic fintech emerges as an innovation that bridges Islamic values with modern financial systems, thereby expanding Islamic financial inclusion across various segments of society. In this context, regulation serves as the primary instrument to ensure that fintech innovation remains within the framework of Sharia principles, such as the prohibition of riba, gharar, and maysir. The state plays a strategic role in establishing a legal framework that is both adaptive to technological developments and consistently ensures Sharia compliance. Therefore, the quality of regulation and institutional design of supervisory bodies becomes a determining factor in the successful implementation of Islamic fintech (Thani et al., 2025).

In Indonesia, Islamic fintech regulation is established through a combination of state and religious authorities, reflecting a pluralistic legal system. The Financial Services Authority (OJK) acts as the main regulatory authority overseeing operational aspects, licensing, and consumer protection in the financial services sector, including fintech. On the other hand, the National Syaria Board - Indonesian Council of Ulama (DSN-MUI) is responsible for issuing fatwas that serve as the Sharia basis for financial products and services. In practice, direct supervision is carried out by the Sharia Supervisory Board established within each financial institution. This model reflects an institutional dualism in which regulatory authority and Sharia authority are separated. While this provides flexibility in product development, it also creates coordination challenges, particularly in aligning positive law with Sharia principles.

Regulatory dynamics in Indonesia demonstrate continuous efforts to strengthen the legal framework for Islamic fintech. This is reflected in various policies, such as POJK No. 10/POJK.05/2022 and the Financial Sector Development and Strengthening Act (UU P2SK), which provide a more comprehensive legal foundation for regulating fintech activities (Aulia et al., 2020). These regulations govern not only licensing and operational aspects but also emphasize governance, risk management, and consumer protection. In addition, a risk-based supervision approach has begun to be implemented to accommodate the dynamic nature of fintech. However, several studies indicate that implementation still faces challenges, particularly in inter-agency coordination, limited resources, and the restricted authority of the DPS in directly enforcing Sharia compliance. This shows that regulatory strengthening has not yet been fully matched by effective implementation in practice.

In contrast, Malaysia adopts a different approach through a more integrated regulatory model within a unified national framework. The Bank Negara Malaysia serves as the sole authority responsible for regulating and supervising the entire financial sector, including Islamic fintech. Within this institutional structure, the Shariah Advisory Council (SAC) holds a strategic position as the highest authority issuing binding Sharia resolutions. SAC decisions function not only as guidelines but also carry legal force within the judicial and financial systems. This integration between regulatory and Sharia authorities enables more effective policy synchronization, reducing potential conflicts between business interests and Sharia compliance (Hashir & Rashid, 2025).

The strength of Malaysia's system lies in its ability to create harmony between regulation and Sharia principles within a single integrated institutional framework. This integration allows faster and more consistent decision-making processes and enables more effective supervisory mechanisms. Furthermore, the system is supported by a comprehensive Sharia governance framework that clearly defines the roles and responsibilities of financial institutions and Sharia supervisory bodies, thereby strengthening compliance enforcement (Yuspin & Fauzie, 2023).

Differences in institutional structure between Indonesia and Malaysia directly affect the level of integration and effectiveness of Islamic fintech supervision. Indonesia, with its dualistic model, tends to face coordination challenges among institutions, which may lead to inconsistencies in policy implementation (Sain & Adinugraha, 2025). In contrast, Malaysia's integrated system enables a more efficient and consistent supervisory mechanism, providing stronger legal certainty. This indicates that regulatory effectiveness is determined not only by the substance of regulations but also by institutional design that supports implementation. Therefore, strengthening institutional frameworks and improving inter-agency coordination are key factors in enhancing the effectiveness of Islamic fintech supervision.

Table 1: Differences in Islamic Fintech Regulation and Supervisory Institutions in Indonesia and Malaysia

No	Aspect	Indonesia	Malaysia
1	Main Regulator	Otoritas Jasa Keuangan (OJK)	Bank Negara Malaysia
2	Sharia Authority	DSN-MUI & DPS (Sharia Supervisory Board)	Shariah Advisory Council (SAC)
3	Institutional Model	Dualistic	Integrated
4	Regulatory Framework	OJK Regulations (POJK) & DSN Fatwas	Financial Services Act & SAC resolutions
5	Legal Force of Fatwa	Not directly binding	Legally binding

Indonesia adopts a dual institutional model in which regulatory functions fall under Otoritas Jasa Keuangan (OJK), while Sharia compliance is determined through fatwas issued by DSN-MUI and supervised by DPS within each institution. This structure results in Sharia supervisory authority not being fully integrated into the state system, making inter-agency coordination more complex.

In contrast, Malaysia demonstrates a more integrated system in which Bank Negara Malaysia functions not only as a regulator but is also supported by the Shariah Advisory Council (SAC), which has the authority to issue binding Sharia rulings (Purnomo, 2025). This difference affects the legal force of fatwas, where in Malaysia fatwas are enforceable by law, whereas in Indonesia they depend on formal regulatory adoption mechanisms. Furthermore, institutional coordination in Malaysia is more streamlined and efficient compared to Indonesia, which involves multiple stakeholders.

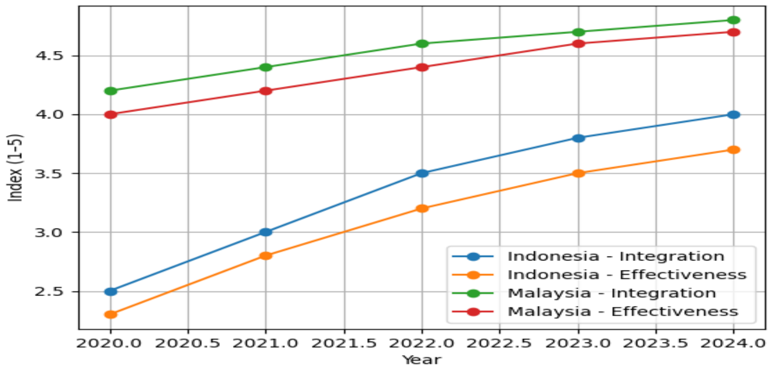

Figure 1. Comparison of Integration and Effectiveness of Islamic Fintech Supervision (2020–2024)

The graph indicates that both Indonesia and Malaysia have experienced an increase in institutional integration levels and the effectiveness of Islamic fintech supervision during the 2020–2024 period. However, Malaysia consistently ranks higher than Indonesia in both indicators. This reflects the superiority of Malaysia's more integrated institutional system, which enables more effective supervisory coordination (Fidhayanti et al., 2025).

Meanwhile, Indonesia shows a relatively significant upward trend, particularly following regulatory strengthening through OJK policies and financial sector reforms. Nevertheless, the gap between institutional integration and supervisory effectiveness in Indonesia still indicates an implementation gap, suggesting that regulatory improvements have not been fully matched by optimal supervisory enforcement at the operational level (Wan Idrus et al., 2018).

The analysis of Islamic fintech regulation and supervisory frameworks shows that successful implementation depends not only on the completeness of regulations but also on the institutional system's ability to effectively integrate various supervisory functions. In this context, Indonesia needs to consider strategic steps to strengthen coordination between regulatory authorities and Sharia institutions, as well as enhance institutional capacity to address increasingly complex technological developments.

The integrated model, as implemented in Malaysia, has proven to be more effective in ensuring Sharia compliance, whereas the dualistic model in Indonesia still requires stronger inter-institutional coordination. Therefore, Malaysia's experience can serve as a reference for developing a more integrated and adaptive supervisory model capable of addressing future challenges in Islamic fintech.

Comparative analysis demonstrates that the institutional differences between Indonesia and Malaysia are rooted in their respective legal and constitutional traditions.

Indonesia adopts a pluralistic legal system that separates state regulatory authority from religious authority. Consequently, Sharia supervision is distributed among OJK, DSN-MUI, and DPS. This arrangement aims to accommodate Indonesia's socio-legal diversity but often results in overlapping authority and slower decision-making processes. In contrast, Malaysia institutionalizes Sharia governance within the national financial regulatory framework, allowing Bank Negara Malaysia and the Shariah Advisory Council (SAC) to operate under a unified supervisory structure.

These institutional differences have significant implications for legal protection and regulatory certainty. In Indonesia, the advisory nature of DPS authority may create uncertainty when Sharia violations occur because enforcement depends on subsequent action by financial regulators. As a result, corrective measures may be delayed and consumers may face greater risks arising from non-compliant products. Conversely, Malaysia's integrated framework enables immediate implementation of SAC decisions, thereby strengthening legal certainty, consumer protection, and market confidence in Islamic fintech products.

From a comparative perspective, the Malaysian model offers valuable lessons for Indonesia, particularly regarding institutional integration and the strengthening of Sharia governance. Nevertheless, full transplantation of the Malaysian system may not be feasible because Indonesia's constitutional framework does not place religious institutions within the formal structure of state financial regulation. Therefore, rather than adopting the Malaysian model entirely, Indonesia may pursue a hybrid approach by enhancing coordination mechanisms between OJK, DSN-MUI, and DPS while gradually strengthening the binding force of Sharia supervisory recommendations. Such an approach would preserve Indonesia's institutional characteristics while improving supervisory effectiveness and legal certainty.

Authority of the Sharia Supervisory Board in Ensuring Compliance in Islamic Fintech

The authority of the Sharia Supervisory Board is a fundamental element in maintaining the integrity and Sharia compliance of technology-based financial institutions. In the context of Islamic fintech, the DPS does not merely function as a regulatory body but also as a strategic actor ensuring that every technological innovation remains within the framework of Sharia principles. This role becomes increasingly important as fintech introduces dynamic, rapidly evolving, and highly complex business models compared to conventional financial institutions. In this regard, the authority of the DPS encompasses both preventive supervisions, aimed at preventing potential violations at the product design stage and repressive supervision, which addresses any indication of non-compliance with Sharia principles. Thus, the DPS functions not only as a guardian of compliance but also as a guardian of the moral legitimacy of the Islamic financial industry (Yuspin & Fauzie, 2023).

Conceptually, the authority of the DPS can be categorized into several main dimensions: the authority to issue Sharia opinions, to assess and approve contractual structures and products, and to conduct ongoing supervision of institutional operations. In the context of Islamic fintech, these dimensions of authority have expanded due to the digital nature of financial products, which often involve emerging technologies such as peer-to-peer lending, crowdfunding, and smart contracts. This complexity requires the DPS not only to possess deep expertise in Islamic commercial jurisprudence (*fiqh muamalah*) but also to understand digital system logic, algorithms, and platform-based business models. Therefore, DPS authority in fintech cannot be understood in a conventional manner but must be viewed as part of an adaptive governance system aligned with technological development.

In Indonesia, the authority of the DPS is regulated through provisions issued by the Otoritas Jasa Keuangan (OJK) and fatwas from the National Syariah Board – Indonesian Council of Ulama (DSN-MUI). The DPS plays a role in providing advice and recommendations to the board of directors, supervising business activities, and ensuring that all products comply with applicable fatwas. However, this authority is essentially advisory in nature, meaning it does not possess direct binding power in corporate decision-making. This creates limitations in supervisory effectiveness, particularly when conflicts arise between business interests and Sharia compliance. Thus, although the DPS plays an important normative role, in practice it still faces constraints in enforcement mechanisms (Huddin et al., 2022).

In contrast, in Malaysia, Sharia supervisory authority is stronger due to its integration into the national legal system. The Shariah Advisory Council (SAC) functions as the highest authority in determining Sharia compliance, and its rulings are binding on all financial institutions (Indonesia, 2019). Within this structure, the DPS or Sharia committees at the institutional level act as operational bodies responsible for supervising the implementation of policies set by the SAC. This integration creates a more systematic relationship between regulators, Sharia authorities, and financial institutions, ensuring consistency in the application of Sharia principles. Furthermore, the system strengthens supervisory authority through a clear enforcement mechanism and a strong legal foundation.

To provide a more systematic overview of these differences, the following table summarizes the comparative authority of the Sharia Supervisory Board in Islamic fintech:

Table 2: Differences in the Authority of the Sharia Supervisory Board in Islamic Fintech

No	Aspect	Indonesia	Malaysia
1	Nature of Authority	Advisory	Semi-binding / Binding
2	Legal Basis	OJK regulations & DSN-MUI fatwas	Bank Negara Malaysia & SAC
3	Role of DPS	Supervisory & Advisory	Operational Supervision
4	Decision-Making Authority	Not legally binding	Binding through SAC
5	Scope of Authority	Review & monitoring	Review, monitoring & enforcement
6	Involvement in Product Development	Limited	More intensive

The table illustrates a fundamental difference in the authority structure of the Sharia Supervisory Board (DPS) between Indonesia and Malaysia. In Indonesia, the DPS primarily functions as an advisory body that provides recommendations to management, meaning that its effectiveness largely depends on the internal commitment of financial institutions. In contrast, in Malaysia, the authority of the DPS is strengthened by an integrated institutional system, whereby every Sharia compliance decision carries stronger legal force and can be implemented directly. This difference indicates that the strength of authority is determined not only by the formal functions of the DPS but also by the surrounding legal and institutional framework.

In Islamic fintech practice, the authority of the DPS also faces increasingly complex challenges. One of the main challenges is the rapid development of technology, which produces new products and services with characteristics not fully covered by classical Sharia legal frameworks (Rahmatika et al., 2024). The use of algorithms, smart contracts, and AI-based automated systems requires the DPS to develop more innovative and adaptive supervisory approaches. In addition, limited technological expertise among DPS members becomes an obstacle in fully understanding fintech operational mechanisms, which may affect the quality of supervision.

Another challenge relates to law enforcement, particularly in Indonesia. The DPS does not have the authority to impose direct sanctions for Sharia violations, meaning that enforcement depends heavily on regulators such as the Financial Services Authority (OJK). This condition may cause delays in responding to violations and reduce supervisory effectiveness. In contrast, Malaysia's integrated system allows for faster and more effective enforcement mechanisms, as Sharia decisions hold clear legal standing through the Shariah Advisory Council (SAC) (Arifin et al., 2024). This shows that supervisory effectiveness is determined not only by normative authority but also by the existence of a strong and integrated enforcement mechanism.

The analysis of DPS authority in Islamic fintech indicates that legal strength, institutional capacity, and supervisory system integration are key determinants of effectiveness. A more integrated authority model with strong binding power proves to be more effective in ensuring Sharia compliance. Therefore, Indonesia needs to strengthen DPS authority through regulatory reform, improved inter-agency coordination, and human resource capacity development to address the challenges posed by the increasingly complex and dynamic development of fintech.

Evaluating the Effectiveness of DPS Authority in Islamic Fintech

The effectiveness of DPS authority can be evaluated through several indicators, including the level of Sharia compliance, the implementation of Sharia audits, the occurrence of Sharia violations, and the responsiveness of corrective actions. In Indonesia, most licensed Islamic fintech operators formally comply with DSN-MUI fatwas and OJK regulations during the product approval stage. However, empirical studies indicate that compliance monitoring remains largely procedural because DPS recommendations do not possess direct legal enforceability. Consequently, the effectiveness of DPS supervision depends heavily on management commitment and regulatory follow-up by OJK.

The limited enforcement authority of DPS has generated several legal challenges. First, DPS cannot independently impose sanctions when Sharia irregularities are identified. Second, corrective actions often require coordination with external regulators, creating delays in enforcement. Third, differences in interpretation between management and DPS may reduce the effectiveness of preventive supervision. These conditions potentially weaken consumer protection because non-compliant practices may continue until regulatory intervention occurs.

By comparison, Malaysia demonstrates a stronger supervisory model. The integration of Sharia governance within Bank Negara Malaysia enables Sharia committees to operate under a clearer enforcement framework. SAC rulings are legally recognized and binding, reducing ambiguity in interpretation and implementation. Consequently, Sharia audit findings can be translated into corrective actions more efficiently than in Indonesia.

The comparative evidence suggests that the effectiveness of DPS authority is determined not merely by the existence of supervisory institutions but by the legal force attached to their decisions. Therefore, strengthening DPS authority in Indonesia should focus on improving the enforceability of supervisory recommendations, enhancing coordination with regulators, and developing technology-based monitoring systems capable of detecting Sharia compliance risks in real time.

Effectiveness and Challenges of DPS Supervision in Ensuring Islamic Fintech Compliance

The effectiveness of Sharia Supervisory Board oversight of Islamic fintech is an important indicator for assessing the successful implementation of Sharia compliance principles in the technology-based financial sector. In this context, effectiveness is not only measured by the existence of regulations or institutional structures, but also by the extent to which the DPS can ensure that all fintech operational activities are aligned with Sharia principles. Research indicates that supervisory effectiveness is strongly influenced by institutional capacity, clarity of authority, and adequate regulatory support.

Empirically, the level of DPS supervisory effectiveness can be observed through several indicators, such as compliance with fatwas, consistency in the implementation of Sharia contracts, and transparency in fintech operations. In practice, many Islamic fintech institutions have attempted to meet compliance standards through internal Sharia audit mechanisms and periodic reporting to the DPS (Fidhayanti et al., 2024). However, studies show that variations in compliance levels still exist across institutions, indicating that DPS supervisory effectiveness is not yet uniform. This is influenced by differences in institutional capacity and the level of understanding of Sharia principles.

In addition, supervisory effectiveness is also affected by rapid technological development. Islamic fintech introduces various innovations such as peer-to-peer lending, crowdfunding, and smart contracts, which require new approaches to Sharia supervision (Isral & Muthoifin, 2025). The DPS is required to adapt conventional supervisory methods to a more complex digital environment. However, limited technological expertise among

DPS personnel remains a major challenge in ensuring effective supervision (Putri & Hanif, 2024).

Another challenge in Islamic fintech supervision is the limitation of enforcement authority. In Indonesia, the DPS does not have the authority to impose direct sanctions for Sharia violations, meaning that enforcement depends heavily on regulators such as the Financial Services Authority (OJK). This condition makes enforcement less effective, particularly when dealing with technical violations that require rapid response. Research shows that weak enforcement mechanisms are one of the main factors hindering DPS supervisory effectiveness (Ermiati, 2025).

In addition to internal factors, DPS effectiveness is also influenced by external factors such as the level of Islamic financial literacy among the public. Limited public understanding of Sharia principles can reduce market pressure on fintech institutions to maintain compliance. In other words, supervision does not only depend on the DPS but also on public participation as service users. Therefore, improving Islamic financial literacy is an important component in strengthening overall supervisory effectiveness.

Table 3. Level of DPS Supervisory Effectiveness

Indicator	Indonesia	Malaysia	Legal Implication
Sharia Audit Implementation	Moderate	High	Malaysia provides stronger audit follow-up mechanisms
Binding Force of DPS Decisions	Low	High	Greater legal certainty in Malaysia
Enforcement Mechanism	Indirect	Direct/Integrated	Faster corrective actions
Institutional Coordination	Moderate	High	Reduced regulatory overlap
Consumer Protection	Moderate	High	Better mitigation of Sharia compliance risks
Technological Adaptation	Moderate	Moderate-High	Enhanced fintech supervision

The comparison indicates that Malaysia demonstrates a higher level of effectiveness in Sharia supervision than Indonesia. This is reflected in stronger Sharia audit implementation, legally binding DPS decisions, integrated enforcement mechanisms, and better institutional coordination. These factors contribute to greater legal certainty, enhanced consumer protection, and more effective mitigation of Sharia compliance risks in the Islamic fintech sector (Nuri, 2025).

Meanwhile, indicators of technology adaptation and enforcement mechanisms remain low, reflecting limited DPS capacity to keep pace with rapid developments in financial technology and insufficient authority to impose sanctions for Sharia violations. This condition shows that the main challenges in Islamic fintech supervision lie not only in regulatory aspects but also in institutional capacity, human resource quality, and the ability to adapt to ongoing technological innovation (Safira et al., 2025).

To address these challenges, strategic efforts are required to strengthen DPS supervisory effectiveness. One important step is enhancing human resource capacity through training that integrates fiqh muamalah and financial technology. In addition, strengthening regulations to grant greater enforcement authority to the DPS is also essential. Research indicates that the integration of regulations, institutional frameworks, and human resource capacity is key to improving Islamic fintech supervision effectiveness (Durianto et al., 2025).

Furthermore, the development of technology-based supervision systems (regtech and suptech) can serve as a solution to improve effectiveness. By utilizing digital technology, the DPS can monitor fintech activities in real time, allowing potential violations to be detected more quickly (Wahab & Ihsan, 2025). This approach also improves efficiency in supervision processes and enhances decision-making accuracy.

Overall, DPS supervisory effectiveness in Islamic fintech still faces various challenges from institutional, regulatory, and technological aspects. Nevertheless, with efforts to strengthen capacity and integrate supervisory systems, the DPS has the potential to play a more optimal role in enforcing Sharia compliance. Therefore, synergy between regulators, Sharia Supervisory Boards, and industry players is required to create a more effective and adaptive supervisory system in response to the development of Islamic financial technology.

CONCLUSION

This study shows that the authority of the Sharia Supervisory Board (DPS) plays an important role in enforcing Sharia compliance in the fintech sector; however, its effectiveness is highly influenced by supporting regulatory and institutional frameworks. Both Indonesia and Malaysia have established Sharia supervisory frameworks, but with different approaches: Indonesia tends to adopt a dual institutional model, while Malaysia implements a more integrated system. This difference affects the strength of authority and supervisory effectiveness, with integrated systems generally being more capable of ensuring consistency in Sharia compliance. In the context of dynamic fintech development, DPS is required not only to perform normative functions but also to adapt to technological advancements and digital business models.

This study further finds that differences in institutional design significantly influence the effectiveness of Sharia supervision. The Malaysian model provides stronger legal certainty due to the binding nature of SAC decisions and the integration of supervisory authority within the national regulatory framework. Although Indonesia cannot fully replicate this model because of its distinct constitutional and institutional structure, several elements, particularly stronger coordination mechanisms and enhanced legal force of DPS recommendations, can be adapted to improve supervisory effectiveness and consumer protection in Islamic fintech.

Furthermore, this study finds that DPS supervisory effectiveness still faces various challenges, particularly related to technology adaptation, limitations in enforcement authority, and uneven institutional capacity. Although fatwa compliance is generally well maintained, comprehensive supervisory implementation still requires continuous strengthening. Therefore, strategic measures are needed, such as strengthening DPS authority, improving human resource competencies, and integrating a more effective supervisory system to address the complexity of Islamic fintech. Ultimately, optimizing the role of DPS is key to ensuring that Islamic fintech development remains aligned with Islamic legal principles and continues to build sustainable public trust.

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