



Reconceptualizing the Regulation of Sharia Savings and Financing Cooperatives: Integrating Supervision and Guarantee Systems

Miswan Ansori^{1*}, Wahidullah¹, Zahrotun Nafisah¹, Abdul Djamil², Muhlis², Faiqul Hazmi³

¹ Universitas Islam Nahdlatul Ulama Jepara, Indonesia

² Universitas Islam Negeri Walisongo Semarang, Indonesia

³ Chang'an University China, China

✉ miswan@unisnu.ac.id *

Abstract

Sharia Savings and Financing Cooperatives (KSPPS) constitute an essential component of Indonesia's Islamic microfinance sector, providing Sharia-compliant financial services to micro and small economic actors. However, the regulatory framework governing KSPPS remains fragmented and predominantly administrative, offering limited financial supervision and insufficient protection for members' funds. This regulatory condition creates structural disparities between KSPPS and other Sharia financial institutions and raises concerns regarding institutional stability and public trust. This study examines the legal position of KSPPS within Indonesia's national legal framework and proposes a regulatory reconstruction aimed at integrating supervision and deposit guarantee mechanisms. Using a qualitative juridical-normative approach combined with institutional analysis and public policy evaluation, the research analyzes statutory regulations, ministerial policies, DSN-MUI fatwas, and existing supervisory practices. Comparative analysis with Islamic banking supervision is employed to identify regulatory gaps and best practices. The findings reveal that KSPPS are legally positioned as general cooperatives, resulting in fragmented oversight between administrative authorities and internal Sharia supervisory bodies that lack prudential and enforcement authority. Furthermore, the absence of a Sharia-based deposit guarantee scheme exposes members to financial risk and contradicts the Sharia objective of wealth protection (ḥifẓ al-māl). To address these challenges, the study proposes an integrated regulatory model that repositions KSPPS as Sharia microfinance institutions subject to risk-based, Sharia-compliant supervision and supported by a Sharia-based deposit guarantee scheme grounded in the principles of tabarru' and ta'āwun. This research contributes to Islamic financial regulation scholarship by offering a coherent normative and institutional framework that strengthens legal certainty, consumer protection, and the sustainability of Sharia cooperative finance.

Keywords: Regulation, Sharia Savings and Financing Cooperatives, Integrating Supervisions, Guarantee Systems

ARTICLE INFO

Article history:

Received

November 14,
2025

Revised

February 27, 2026

Accepted

April 05, 2026

Published by

ISSN

Website

This is an open access article under the CC BY SA license

CV. Creative Tugu Pena

2774-7077

<https://attractivejournal.com/index.php/bce/>

<https://creativecommons.org/licenses/by-sa/4.0/>



@ 2026 by the authors

INTRODUCTION

The expansion of Islamic finance within plural legal systems has generated increasing regulatory complexity, particularly in jurisdictions where cooperative institutions operate alongside formal financial intermediaries. In dual financial architectures such as Indonesia's, regulatory coherence becomes a critical issue when institutions performing similar economic functions are subject to fundamentally different supervisory regimes. Islamic banks operate under integrated, risk-based prudential supervision and benefit from formal deposit protection mechanisms, whereas Sharia Savings and Financing Cooperatives (Koperasi Simpan Pinjam dan

Pembiayaan Syariah/KSPPS) remain regulated primarily under the Cooperative Law framework. This structural divergence raises important questions regarding regulatory proportionality, functional equivalence, and systemic stability within the Islamic financial ecosystem (Hasan et al., 2025; Suyatno et al., 2025).

Sharia Savings and Financing Cooperatives (Koperasi Simpan Pinjam dan Pembiayaan Syariah/KSPPS) constitute an essential component of Islamic microfinance institutions that play a strategic role in enhancing economic welfare through financing mechanisms compliant with Sharia principles. These cooperatives implement Islamic contracts and business ethics that significantly influence member participation and loyalty. By providing financial access to micro and small enterprises, KSPPS contribute directly to local economic development and community empowerment through various instruments, including financing, savings schemes, and social funds. In practice, KSPPS also manage non-performing financing through multiple approaches, including collateral execution, reflecting their function as risk-bearing financial intermediaries (Fianto et al., 2019; Rohmatul et al., 2020).

However, despite performing core financial intermediation functions comparable to other Islamic financial institutions, KSPPS are not treated as prudentially supervised financial entities within Indonesia's national regulatory architecture. They remain legally classified as general cooperatives and supervised predominantly through administrative compliance mechanisms rather than risk-based financial oversight. This misalignment between legal form and economic function creates a structural regulatory contradiction that exposes cooperative members to disproportionate financial risk and weakens institutional resilience.

Despite their growing importance, KSPPS face substantial challenges in ensuring Sharia compliance and institutional sustainability. Effective supervision is crucial to maintaining adherence to Islamic principles and safeguarding member trust. However, many KSPPS encounter persistent problems related to governance quality, weak oversight mechanisms, and inadequate protection of members' funds. The absence of firm and comprehensive regulatory frameworks, coupled with the lack of a dedicated supervisory authority and deposit guarantee institution for cooperatives, has heightened the risk of institutional failure and eroded public confidence in cooperative-based financial institutions (Andrean et al., 2024; Puspitasari et al., 2023).

The weakness of supervisory functions and the limited availability of risk mitigation systems have further contributed to the low credibility of Sharia cooperatives within Indonesia's national financial system. Previous studies emphasize the critical role of the Sharia Supervisory Board (Dewan Pengawas Syariah/DPS) and the National Sharia Council (Dewan Syariah Nasional/DSN) in ensuring compliance with Islamic principles. Nevertheless, significant challenges remain, including non-uniform supervisory mechanisms, insufficient expertise, and limited coordination among supervisory institutions. Moreover, the absence of standardized operational and supervisory practices in Sharia cooperatives has increased the likelihood of operational deviations and Sharia non-compliance, underscoring systemic regulatory gaps. (Fatmawati et al., 2022; Hasan et al., 2025; Syahrial, 2022).

These conditions reveal that the regulatory challenges of KSPPS are not merely administrative deficiencies but stem from a deeper institutional design problem. The separation between cooperative law supervision and financial prudential regulation produces fragmented authority, limited enforcement capacity, and the absence of integrated depositor protection mechanisms. Such fragmentation contradicts the principle of functional regulation, which requires that institutions performing similar financial intermediation activities be regulated according to comparable risk standards (Defilania, 2025). Furthermore, from the perspective of Islamic economic law, the absence of systemic risk governance and deposit protection undermines the Sharia objective of safeguarding wealth (*ḥifz al-māl*), reducing Sharia compliance to internal ethical oversight rather than embedding it within enforceable institutional safeguards (Zuhdi et al., 2025).

Although a growing body of literature has examined Sharia compliance, governance practices, and risk management in Islamic microfinance institutions and Sharia cooperatives, most existing studies remain fragmented in their analytical focus (Al Rahahleh et al., 2019; Rachman et al., 2025). Analytically, prior research predominantly concentrates on internal compliance mechanisms (Batool, 2025; Yaş, 2023), the role of Sharia Supervisory Boards (Boudawara et al., 2023; Triasari & de Zwart, 2021), or operational performance at the institutional level (Azzat et al., 2025) without adequately examining the macro-regulatory architecture that structurally positions KSPPS outside prudential supervision. Conceptually, limited scholarship applies functional

regulation theory or institutional regulatory design analysis to explain why cooperative classification generates systemic vulnerability. Methodologically, most studies employ case-based or performance-oriented empirical approaches without integrating doctrinal legal interpretation and institutional governance evaluation. Jurisdictionally, little attention has been given to Indonesia's plural financial regulatory framework, where cooperative law, Islamic financial regulation, and public policy design operate in parallel but insufficiently integrated regimes.

Based on this background, this study addresses two main research questions: first, how the existing legal foundations governing Sharia cooperatives can be critically analyzed; and second, how a reconstructed regulatory framework for Sharia Savings and Financing Cooperatives can be formulated to realize an integrated supervision and guarantee system.

To answer these questions, this research adopts a qualitative juridical-normative approach combined with institutional analysis and public policy evaluation. The study examines current regulatory frameworks, identifies weaknesses in cooperative supervision and guarantee systems, and formulates policy recommendations grounded in Sharia principles and modern financial governance standards.

The objective of this research is to assess the extent to which existing legal instruments have effectively regulated KSPPS and to propose a reconstructed regulatory model capable of integrating supervision and guarantee systems in an effective and sustainable manner. By doing so, this study aims to provide solutions to longstanding regulatory and institutional imbalances that have hindered the development of Sharia cooperatives.

The urgency of this research lies in the pressing need to establish a robust system for protecting cooperative members from potential losses arising from institutional failure (Chapra & Khan, 2000). As Sharia cooperatives continue to expand their role within the financial sector, a regulatory framework that is not merely reactive to crises but also preventive and sustainable becomes indispensable (Afdawairza et al., 2024; Kurniasari et al., 2021). This study contributes to the literature on Islamic economic law and public policy while offering practical guidance for policymakers in designing fair, adaptive, and resilient regulatory frameworks aligned with the dynamics of Indonesia's national financial system.

Although a growing body of literature has examined Sharia compliance, governance practices, and risk management in Islamic microfinance institutions and Sharia cooperatives, most existing studies remain fragmented in their analytical focus (Al Rahahleh et al., 2019; Rachman et al., 2025). Previous research predominantly concentrates on internal compliance mechanisms (Batool, 2025; Yaş, 2023), the role of Sharia Supervisory Boards (Boudawara et al., 2023; Hasan et al., 2025; Triasari & de Zwart, 2021), or operational performance at the institutional level (Azzat et al., 2025), without adequately addressing the broader regulatory architecture that governs supervision and member protection. Moreover, studies rarely engage with the absence of an integrated supervisory and guarantee system specifically designed for Sharia Savings and Financing Cooperatives, particularly within the context of Indonesia's plural financial regulatory framework. This gap is further exacerbated by the limited attention given to the interaction between cooperative law, Islamic financial regulation, and public policy design in ensuring systemic stability and depositor protection.

This study seeks to fill these gaps by offering a normative and institutional reconstruction of the regulatory framework governing KSPPS, with a specific focus on integrating supervision and guarantee mechanisms into a unified system. By combining juridical-normative analysis with institutional and policy perspectives, this research contributes to existing scholarship in three key ways. First, it advances theoretical discourse in Islamic economic law by proposing an integrative regulatory model that harmonizes cooperative principles with Sharia governance and modern financial supervision. Second, it provides a policy-oriented framework that addresses structural weaknesses in current regulatory arrangements, offering practical insights for regulators and policymakers. Third, this study enriches the literature on Islamic microfinance by shifting the analytical focus from isolated institutional compliance toward systemic regulatory resilience and sustainable member protection.

METHOD

Research Design and Approach

This study adopts a qualitative research approach using a juridical-normative method, combined with institutional analysis and public policy analysis (Ahmed, 2025). Methodologically,

this research can be classified as doctrinal legal research enriched by normative legal theory and supported by socio-legal institutional analysis. The qualitative design is considered appropriate given the normative and conceptual nature of the research, which aims to examine legal frameworks, institutional arrangements, and regulatory policies governing Sharia Savings and Financing Cooperatives (KSPPS). Rather than testing hypotheses through quantitative measurement, this study focuses on interpreting legal norms, institutional practices, and policy structures to identify regulatory gaps and formulate an integrated supervision and guarantee model. The underlying methodological philosophy assumes that law operates not only as a body of rules but as a governance architecture shaping institutional behavior; therefore, legal interpretation in this study serves as the foundation for evaluating regulatory coherence and constructing a reconstructed regulatory design.

The juridical-normative approach is employed to analyze statutory regulations, legal doctrines (Hartono et al., 2022), and Sharia norms relevant to KSPPS supervision and deposit protection. This approach enables a systematic examination of the coherence, adequacy, and consistency of existing legal instruments in regulating Sharia cooperatives. To complement this legal analysis, institutional study and public policy analysis are incorporated to assess how regulatory norms are implemented in practice and how institutional actors interact within the supervisory and guarantee framework.

Research Stages and Procedures

The research was conducted through several systematic stages to ensure methodological rigor and transparency (Brackett & Batten, 2022). The first stage involved an extensive literature review and positive law analysis. This stage focused on examining relevant laws and regulations governing cooperatives and Islamic finance, including statutory provisions on cooperative supervision, Sharia financial regulation, and deposit protection mechanisms. In addition, fatwas issued by the National Sharia Council of the Indonesian Council of Ulama (DSN-MUI) and related policy documents were analyzed to understand the normative foundations of Sharia compliance and supervision within KSPPS.

The second stage consisted of a comparative and institutional study (Scharpf, 2000). This stage examined supervisory and guarantee practices applied to Sharia financial institutions and cooperative-based financial systems in selected jurisdictions. The comparative analysis was conducted to identify best practices, institutional models, and regulatory approaches that could serve as benchmarks for strengthening the Indonesian KSPPS regulatory framework.

The third stage involved data collection, which comprised both primary and secondary data. Primary data were obtained through in-depth, semi-structured interviews with key stakeholders directly involved in the management, supervision, and regulation of KSPPS. These informants included KSPPS management boards, members of Sharia Supervisory Boards (Dewan Pengawas Syariah), regulators from the Ministry of Cooperatives and Small and Medium Enterprises, officials from the Financial Services Authority (Otoritas Jasa Keuangan/OJK), and experts in Islamic economic law. Interviews were conducted to capture experiential insights, institutional challenges, and practical perspectives on supervisory effectiveness and member fund protection.

Secondary data were collected from policy documents, annual reports of cooperatives, audit reports, regulatory guidelines, official publications, and relevant academic literature. These data sources were used to contextualize interview findings and to support normative and institutional analysis.

Data Analysis Techniques

The collected data were analyzed using descriptive qualitative methods combined with a legal policy analysis approach (Hall & Steiner, 2020). Legal texts and policy documents were examined to identify normative inconsistencies, regulatory overlaps, and gaps in supervision and guarantee arrangements. Interview data were analyzed through thematic categorization to identify recurring patterns, institutional constraints, and regulatory weaknesses. The integration of legal analysis and empirical insights allowed the study to evaluate how existing regulatory frameworks function in practice and where structural improvements are required.

The analysis aimed to synthesize legal norms, institutional practices, and policy considerations into a coherent evaluative framework. This process facilitated the identification of key weaknesses in the current regulatory system and informed the formulation of an integrated regulatory model.

Formulation of Regulatory Reconstruction Model

The final stage of the research focused on formulating policy recommendations in the form of a reconstructed regulatory model for KSPPS. This model integrates institutional governance structures, Sharia supervisory mechanisms, and deposit guarantee arrangements into a unified and accountable regulatory framework. The proposed model is grounded in cooperative principles, Sharia compliance, and modern financial governance standards, ensuring both normative legitimacy and practical applicability.

Through these methodological steps, this study provides a transparent and replicable framework for analyzing and reconstructing the regulation of Sharia Savings and Financing Cooperatives, thereby supporting the validity and reliability of its findings..

RESULT AND DISCUSSION

Using functional regulation theory, legal pluralism, *maqāṣid al-sharī'ah* governance, and institutional design theory as integrated analytical lenses, the findings of this study demonstrate that the regulatory problems of KSPPS are structural rather than merely operational. Functional regulation theory is particularly appropriate because KSPPS perform financial intermediation functions comparable to other Sharia financial institutions; therefore, regulatory standards should correspond to economic function rather than historical legal classification. From a legal pluralism perspective, the coexistence of state cooperative law and DSN-MUI Sharia norms produces normative dualism, while institutional design theory explains supervisory fragmentation as regulatory misalignment rather than simple administrative inefficiency. By synthesizing these frameworks, this study advances scholarship by shifting analysis from governance capacity debates toward structural regulatory architecture.

Based on the juridical and institutional analysis, four principal findings emerge as analytical outputs of this research. Finding 1 — Legal Misclassification: KSPPS are classified as general cooperatives despite performing core financial intermediation functions, creating a mismatch between legal form and economic substance. Finding 2 — Supervisory Fragmentation: administrative oversight and Sharia supervision operate without institutional integration, resulting in incomplete prudential governance. Finding 3 — Normative Dualism: DSN-MUI fatwas guide operational practices but lack enforceable incorporation into binding state law, limiting regulatory coherence. Finding 4 — Protection Gap: the absence of a deposit guarantee mechanism exposes members to financial risk and contradicts both modern prudential principles and the *maqāṣid* objective of wealth protection (*ḥifẓ al-māl*). Collectively, these findings indicate that the core weakness of KSPPS governance lies in regulatory design failure rather than internal institutional performance. This study therefore shifts the analytical focus from improving cooperative management to reconstructing supervisory architecture.

1. Legal Position of Sharia Savings and Financing Cooperatives (KSPPS)

Legal Status of KSPPS within the National Legal Framework

The juridical-normative analysis reveals that Sharia Savings and Financing Cooperatives (KSPPS) are legally positioned as part of general cooperative entities under Indonesian law. The primary legal basis governing KSPPS remains Law No. 25 of 1992 on Cooperatives, further elaborated through implementing regulations under the authority of the Ministry of Cooperatives and Small and Medium Enterprises. Specific recognition of Sharia-based cooperative activities is provided through Ministerial Regulation No. 11/Per/M.KUKM/XII/2017, which grants normative legitimacy to Sharia savings and financing operations conducted by cooperatives (Kususiyanah et al., 2021).

However, the analysis indicates that existing regulations do not provide comprehensive provisions regarding financial supervision, risk mitigation, and protection of members' funds. Unlike formal Islamic financial institutions, KSPPS are not subject to supervisory regimes comparable to those established under Law No. 21 of 2011 on the Financial Services Authority or Law No. 24 of 2004 on the Deposit Insurance Corporation. This regulatory gap results in a structural disparity between KSPPS and other Sharia financial institutions, despite their similar intermediation functions.

To systematically illustrate this disparity, Table 1 presents a comparison between the existing regulatory framework governing KSPPS and the proposed integrated regulatory reconstruction model.

Table 1. Comparison of KSPPS Regulatory, Supervisory, and Guarantee Systems: Existing Conditions and Proposed Integrated Model

Aspect	Existing KSPPS Regulatory Framework	Proposed Integrated Regulatory Model
Legal Basis	Cooperative Law and ministerial regulations	Special regulation integrating cooperative law and Sharia financial supervision
Institutional Status	General cooperative with savings activities	Sharia microfinance institution
Supervisory Authority	Ministry of Cooperatives (administrative)	Integrated supervision involving cooperative authority and Sharia financial oversight
Supervision Model	Administrative compliance	Risk-based and Sharia-compliant supervision
Sharia Supervision	Internal DPS without enforcement power	DPS integrated into national supervisory system
Deposit Protection	No deposit guarantee scheme	Sharia-based deposit guarantee mechanism
Legal Certainty	Low and fragmented	High and structurally integrated
Public Trust Impact	Fluctuating and relatively low	Strengthened and sustainable

The findings regarding the legal position of Sharia Savings and Financing Cooperatives (KSPPS) reveal a fundamental structural contradiction within Indonesia's financial regulatory framework. Although KSPPS perform core financial intermediation functions comparable to those of other Islamic financial institutions, they remain legally classified as general cooperatives under the Cooperative Law regime. This legal positioning reflects a regulatory legacy that prioritizes administrative oversight and cooperative formalism rather than financial risk governance. As a result, KSPPS operate in a regulatory space that does not adequately correspond to the economic risks inherent in their activities.

The absence of comprehensive provisions on financial supervision, risk mitigation, and member fund protection underscores a critical regulatory mismatch between form and function. While Islamic banks and other formal financial institutions are subject to integrated supervision and deposit protection mechanisms under the Financial Services Authority and the Deposit Insurance Corporation, KSPPS are excluded from these regimes despite mobilizing public funds. This disparity confirms the existence of a regulatory gap that weakens legal certainty and exposes cooperative members to disproportionate financial risk. From a regulatory theory perspective, such asymmetry undermines the principle of functional regulation, which holds that institutions performing similar economic functions should be subject to comparable supervisory standards (Defilania, 2025).

The comparison presented in Table 1 highlights that the current regulatory framework governing KSPPS remains fragmented and reactive, emphasizing document compliance rather than systemic risk prevention. Administrative supervision by the Ministry of Cooperatives is not designed to address prudential concerns such as liquidity risk, governance failures, or Sharia non-compliance with financial implications. Consequently, the existing framework fails to provide early warning mechanisms or enforceable corrective measures, increasing the likelihood of institutional failure and eroding public trust in Sharia cooperatives (Issyam et al., 2016).

These findings align with prior studies that identify weak supervisory integration as a persistent vulnerability in Islamic microfinance institutions, particularly those operating outside formal financial regulatory regimes. However, this study extends existing scholarship by demonstrating that the problem is not merely one of supervisory capacity but of regulatory design.

The legal classification of KSPPS as ordinary cooperatives structurally limits the scope of oversight that can be applied, regardless of improvements in administrative supervision. In this sense, the regulatory framework itself becomes a source of systemic risk (Elrahman & Saaid, 2025).

The proposed integrated regulatory reconstruction model directly addresses these shortcomings by reclassifying KSPPS as Sharia microfinance institutions within a harmonized supervisory architecture. By integrating cooperative regulation with Sharia financial supervision and introducing a Sharia-based deposit guarantee mechanism, the model advances a preventive rather than reactive approach to member protection. This shift is significant not only for enhancing institutional resilience but also for restoring public confidence, which is essential for the sustainability of cooperative-based financial systems.

From a normative standpoint, the findings raise important implications for Islamic economic law. The lack of deposit protection and effective supervision contradicts the Sharia objective of protecting wealth (*ḥifẓ al-māl*) and undermines the ethical foundations upon which Sharia cooperatives are built. Integrating Sharia principles into binding regulatory frameworks, rather than relying solely on internal moral compliance, represents a necessary evolution in the governance of Islamic financial institutions.

Overall, this discussion demonstrates that the legal marginalization of KSPPS within the national financial regulatory system is not a peripheral issue but a central obstacle to achieving stable, trustworthy, and Sharia-compliant cooperative finance. By reconceptualizing KSPPS regulation through an integrated supervisory and guarantee framework, this study contributes to a more coherent regulatory paradigm that aligns legal form, economic function, and Islamic normative objectives. This reconceptualization also provides a foundation for future empirical research examining the impact of integrated supervision on the performance and stability of Sharia microfinance institutions (Suyatno et al., 2025).

Position of Sharia Principles and DSN-MUI Fatwas in KSPPS Regulation

The study finds that the operational practices of KSPPS are normatively based on fatwas issued by the National Sharia Council of the Indonesian Council of Ulama (DSN-MUI), including fatwas on savings, financing contracts, and benevolent loans. These fatwas function as ethical and religious guidelines governing Sharia contracts and products offered by KSPPS.

Nevertheless, the results indicate that DSN-MUI fatwas are not structurally integrated into binding state law applicable to KSPPS. Their implementation depends largely on internal compliance mechanisms and the effectiveness of the Sharia Supervisory Board (DPS). This condition creates normative dualism, wherein state law governs cooperative institutions administratively, while Sharia compliance relies on non-state norms with limited enforcement capacity (Purnama et al., 2025).

2. Institutional Analysis of KSPPS Supervision

Fragmentation of the Supervisory System

The institutional analysis shows that KSPPS supervision is carried out in a fragmented manner by multiple institutions with limited and overlapping mandates. Administrative supervision is conducted by the Ministry of Cooperatives and Small and Medium Enterprises, while Sharia supervision is assigned to DPS based on DSN-MUI guidelines. However, DPS lacks authority over prudential supervision, financial audits, and legal enforcement.

In contrast to Islamic banking institutions supervised under a risk-based framework by the Financial Services Authority, KSPPS supervision remains largely reactive and document-oriented. The absence of an integrated supervisory mechanism limits early detection of systemic risks, such as liquidity failure, governance deficiencies, and non-performing financing (Dasopang, 2025).

Absence of a Deposit Guarantee System and Its Implications

One of the key findings of this study is the absence of a deposit guarantee scheme for KSPPS members. Members' savings are not protected by the Deposit Insurance Corporation, as KSPPS fall outside the formal banking regime. This condition contradicts consumer protection principles embedded in financial regulation and undermines the Sharia objective of protecting wealth (*ḥifẓ al-māl*).

To further illustrate the supervisory gap, Table 2 compares the supervisory functions applied to KSPPS and Islamic banking institutions.

Table 2. Comparison of Supervisory Functions: KSPPS and Islamic Banking

Aspect	KSPPS (Existing)	Islamic Banking	Proposed Integrated KSPPS Model
Supervisory Authority	Ministry of Cooperatives	Financial Services Authority	Coordinated supervisory institutions
Supervision Approach	Administrative	Risk-based	Risk-based Sharia supervision
Sharia Oversight	Internal DPS	DPS integrated with DSN-MUI	DPS with standardized national reporting
Deposit Guarantee	None	Deposit Insurance Corporation	Sharia-based deposit guarantee
Consumer Protection	Limited	Strong	Preventive and systematic

The institutional analysis of KSPPS supervision highlights that the core weakness of the current governance framework lies not merely in regulatory absence, but in the fragmentation of supervisory authority. The separation between administrative oversight by the Ministry of Cooperatives and Sharia compliance supervision by the Dewan Pengawas Syariah (DPS) creates a dualistic system in which no single institution possesses a comprehensive mandate over prudential, legal, and Sharia dimensions simultaneously. This institutional fragmentation produces supervisory blind spots that significantly limit the effectiveness of risk prevention and institutional accountability.

The findings demonstrate that DPS, despite its central role in ensuring Sharia compliance, operates without enforcement authority, access to prudential data, or formal integration into national financial supervisory structures. Consequently, Sharia supervision is reduced to normative and ethical oversight, detached from financial risk assessment and corrective intervention. This condition contrasts sharply with Islamic banking supervision, where Sharia governance is institutionally embedded within a risk-based regulatory framework and supported by legally binding supervisory powers. The separation of Sharia oversight from prudential supervision in KSPPS undermines the holistic nature of Sharia governance, which conceptually integrates ethical compliance with financial soundness.

The dominance of administrative and document-oriented supervision further explains the reactive character of KSPPS oversight. Supervisory practices that focus on compliance reporting and formal documentation are structurally incapable of detecting early warning signals such as liquidity stress, concentration risk, or deteriorating governance quality. From the perspective of financial regulation theory, this approach deviates from modern supervisory paradigms that emphasize risk-based, forward-looking, and proportional supervision—particularly critical for institutions managing public funds. As a result, KSPPS are exposed to higher systemic vulnerability despite operating at the microfinance level (Dasopang, 2025; Mihajat, 2019).

The absence of a deposit guarantee scheme emerges as a critical consequence of this fragmented institutional arrangement. Without formal protection mechanisms for members' savings, KSPPS members bear full financial risk in the event of institutional failure. This condition weakens consumer confidence and creates moral hazard asymmetries between KSPPS and Islamic banking institutions. More importantly, it raises normative concerns within the framework of Islamic economic law. The lack of depositor protection directly contradicts the Sharia objective of safeguarding wealth (*ḥifẓ al-māl*), suggesting that ethical compliance cannot be meaningfully upheld without corresponding institutional safeguards.

The comparative analysis presented in Table 2 reinforces the argument that effective supervision requires institutional integration rather than parallel oversight. Islamic banking demonstrates that coordinated supervisory authority, standardized Sharia reporting, and deposit protection mechanisms collectively enhance stability and public trust. The proposed integrated KSPPS model addresses these deficiencies by aligning administrative supervision, Sharia oversight, and prudential regulation within a coordinated framework. Such integration enables preventive supervision, reduces regulatory arbitrage, and strengthens legal certainty for cooperative members.

This study contributes to the existing literature by reframing the supervision problem of KSPPS as an institutional design failure rather than a capacity or compliance issue. While previous studies often emphasize strengthening DPS roles or improving cooperative governance internally, the findings of this research indicate that without structural integration into the national supervisory system, such efforts will remain insufficient. Institutional fragmentation itself becomes a source of systemic risk.

In broader policy terms, the discussion suggests that the sustainability of Sharia cooperative finance depends on rethinking supervisory architecture in line with functional regulation and Islamic normative objectives. Integrating risk-based supervision and Sharia-based deposit guarantees into KSPPS governance is not merely a technical reform but a legal and ethical necessity. Such reforms would position KSPPS as credible, resilient, and socially legitimate actors within Indonesia's Islamic financial ecosystem, while preserving their cooperative identity (Hasan et al., 2025).

3. Regulatory Reconstruction toward Integrated Supervision and Guarantee Systems

Normative Foundations of Regulatory Reconstruction

Based on the findings, regulatory reconstruction for KSPPS should integrate three core elements: national positive law, modern financial governance principles, and Sharia values as articulated in DSN-MUI fatwas. This integration aligns with constitutional mandates positioning cooperatives as pillars of the national economy and emphasizes social justice and protection of vulnerable economic actors.

The normative foundation of the proposed reconstruction rests on the integration of national positive law, contemporary financial governance principles, and Sharia normative values. Constitutionally, cooperatives are positioned as instruments of economic democracy and social justice, implying that regulatory design must prioritize member protection and institutional sustainability. However, existing cooperative regulations emphasize administrative compliance over financial risk governance, creating a mismatch between legal form and economic function.

By incorporating modern financial governance principles—such as risk-based supervision, proportional regulation, and consumer protection—the proposed framework aligns KSPPS regulation with internationally recognized standards without assimilating them into the conventional banking regime. This is particularly important for preserving regulatory proportionality while addressing systemic vulnerabilities.

Equally significant is the integration of Sharia values as articulated in DSN-MUI fatwas. Sharia norms provide not only ethical guidance but also substantive regulatory principles, particularly in relation to wealth protection (*ḥifẓ al-māl*), justice (*‘adl*), and trust (*amanah*). Embedding these values within positive law transforms Sharia compliance from a moral obligation into a legally enforceable governance standard. This approach extends prior scholarship that often treats Sharia supervision as a complementary mechanism, by positioning it instead as a core regulatory pillar (Zuhdi et al., 2025).

Integrated Sharia-Based Supervisory Model

The proposed integrated supervisory model addresses the institutional fragmentation identified in earlier findings by redefining the role of DPS within the national supervisory architecture. Under the existing system, DPS operates in isolation from prudential oversight, limiting its effectiveness to normative compliance without corrective authority. This structural separation weakens both financial stability and Sharia governance.

Repositioning DPS as a formal component of an integrated supervisory system allows Sharia oversight to function in tandem with risk-based supervision. Standardized competencies, unified reporting mechanisms, and Sharia audit frameworks would enable DPS to contribute substantively to early risk detection, governance evaluation, and institutional accountability. Such integration reflects the supervisory model applied in Islamic banking, where Sharia governance is embedded within regulatory enforcement rather than functioning as an internal advisory mechanism.

This model also responds to critiques in the literature that highlight the vulnerability of Sharia microfinance institutions to governance failures due to weak supervisory coordination. By institutionalizing cooperation between the Ministry of Cooperatives, DSN-MUI, and Sharia financial supervisory authorities, the proposed framework enhances regulatory coherence while avoiding jurisdictional overlap. The result is a preventive supervisory system capable of addressing both financial and Sharia risks in a unified manner (Dasopang, 2025; Zuhdi et al., 2025).

Sharia-Based Deposit Guarantee Model

The study proposes the establishment of a Sharia-based deposit guarantee scheme for KSPPS, grounded in the principles of *tabarru'* and *ta'awun*, similar to *takaful* mechanisms. Such a scheme would enhance institutional legitimacy, protect members' funds, and strengthen public trust in Sharia microfinance institutions.

To demonstrate the integration of Sharia principles within the proposed regulatory model, Table 3 presents the relationship between core Sharia principles, relevant DSN-MUI fatwas, and their regulatory implementation.

Table 3. Integration of Sharia Principles in the Proposed KSPPS Regulatory Reconstruction

Sharia Principle	Relevant DSN-MUI Fatwa	Regulatory Implementation
Protection of Wealth (<i>hifz al-māl</i>)	Fatwas on savings and financing	Deposit guarantee and risk management
Mutual Assistance (<i>ta'awun</i>)	Fatwa on <i>takaful</i> principles	Sharia-based guarantee scheme
Justice (' <i>adl</i>)	General Sharia principles	Member protection and fair governance
Transparency and Trust (<i>amanah</i>)	Governance fatwas	Sharia audit and reporting standards
<i>Maqāṣid al-Sharī'ah</i>	Normative Sharia framework	Preventive and sustainable regulation

The introduction of a Sharia-based deposit guarantee scheme constitutes a central innovation of this regulatory reconstruction. The absence of depositor protection for KSPPS members not only undermines public trust but also conflicts with the Sharia objective of safeguarding wealth. From both legal and ethical perspectives, institutions that mobilize public funds carry a responsibility to ensure reasonable protection against loss.

Grounded in the principles of *tabarru'* and *ta'awun*, the proposed guarantee model draws on the logic of *takaful* rather than conventional insurance. Contributions from KSPPS institutions would form a collective risk-sharing fund, designed to protect members' savings without violating prohibitions on *gharar*, *maysir*, or *riba*. This structure preserves Sharia compliance while fulfilling core consumer protection objectives.

As illustrated in Table 3, the proposed regulatory model systematically translates Sharia principles into enforceable regulatory mechanisms. Wealth protection is operationalized through deposit guarantees and risk management requirements; mutual assistance is embodied in collective guarantee schemes; justice and transparency are reinforced through standardized governance and reporting obligations. Importantly, these mechanisms advance the *maqāṣid al-sharī'ah* by promoting institutional sustainability and preventing harm rather than merely responding to failure.

This study extends existing scholarship by demonstrating that Sharia-based deposit guarantees are not only doctrinally feasible but institutionally necessary for the credibility of Sharia microfinance. Unlike prior studies that focus on theoretical compatibility, this research situates deposit protection within a broader regulatory architecture, emphasizing integration rather than isolated reform.

Overall, the proposed regulatory reconstruction offers a coherent model that reconciles cooperative principles, Sharia values, and modern financial regulation. By embedding supervision and guarantee mechanisms within a unified framework, the model enhances legal certainty, strengthens public trust, and supports the long-term sustainability of KSPPS as integral components of the Islamic financial system (Fendi, 2020).

CONCLUSION

This study demonstrates that the current regulatory framework governing Sharia Savings and Financing Cooperatives (KSPPS) in Indonesia is structurally inadequate to address the financial, governance, and Sharia compliance risks inherent in their operations. Although KSPPS

perform core financial intermediation functions similar to other Sharia financial institutions, they remain legally positioned as general cooperatives under an administrative supervisory regime. This misalignment between legal classification and economic function has resulted in fragmented supervision, weak risk mitigation, and the absence of effective protection for members' funds, thereby undermining legal certainty and public trust.

The findings further reveal that institutional fragmentation constitutes a fundamental weakness in KSPPS governance. The separation between administrative supervision by cooperative authorities and Sharia oversight by the Sharia Supervisory Board (DPS) has limited the effectiveness of both mechanisms. Sharia supervision operates without prudential authority or enforcement capacity, while administrative oversight remains compliance-oriented and reactive. The absence of a deposit guarantee scheme exacerbates these vulnerabilities and contradicts both modern consumer protection principles and the Sharia objective of wealth protection (*ḥifẓ al-māl*).

In response to these challenges, this study proposes a regulatory reconstruction that integrates national positive law, modern financial governance principles, and Sharia normative values into a unified supervisory and guarantee framework. The proposed model repositions KSPPS as Sharia microfinance institutions subject to integrated, risk-based, and Sharia-compliant supervision, while preserving their cooperative identity. The integration of DPS into the national supervisory architecture and the establishment of a Sharia-based deposit guarantee scheme grounded in principles of *tabarru'* and *ta'āwun* represent key innovations that enhance institutional legitimacy, preventive governance, and member protection.

The implications of this research extend beyond normative legal reform. Practically, the proposed regulatory model offers policymakers a coherent framework for strengthening the resilience and credibility of Sharia cooperatives within Indonesia's financial system. By aligning legal form, economic function, and Sharia objectives, the model contributes to sustainable cooperative finance and supports broader goals of financial inclusion and social justice.

Future research may build upon this study by empirically examining the impact of integrated supervision and Sharia-based deposit guarantees on KSPPS performance, risk behavior, and member confidence. Comparative studies across jurisdictions and quantitative assessments of regulatory effectiveness would further enrich the discourse and support evidence-based policy development. As Sharia cooperatives continue to expand their role in the national economy, continued interdisciplinary research will be essential to ensure that regulatory evolution remains adaptive, preventive, and firmly grounded in both legal certainty and Sharia values.

REFERENCES

- Afdawairza, Mas'ud, R., & Manulandong, S. Q. (2024). Islamic Banks in the Digital Age : Balancing Innovation with Sharia Principles. *Ikonomika; Jurnal Ekonomi Dan Bisnis Islam*, 9(1), 33–50. <https://doi.org/10.24042/ijebi.v9i1.24912>
- Ahmed, H. (2025). Islamic Normative Legal Theory : Framework and Applications. *Journal of Law and Religion*, 40(1), 28–58. <https://doi.org/10.1017/jlr.2025.10056>
- Al Rahahleh, N., Ishaq Bhatti, M., & Najuna Misman, F. (2019). Developments in Risk Management in Islamic Finance: A Review. *Journal of Risk and Financial Management*, 12(1). <https://doi.org/10.3390/jrfm12010037>
- Andrean, R., Fikri, M. K., & Izaty, S. N. (2024). Risk Management For Cooperatives of Savings and Loans and Sharia Financing: Lesson From Indonesia. *Management and Marketing Journal*, 22(1), 39–50. <https://doi.org/10.52846/MNMK.22.1.03>
- Azzat, N. N., Mohammad, G., & Susilo, A. D. (2025). *Peningkatan Efisiensi dan Pemberdayaan Anggota Melalui Digitalisasi Manajemen Operasional KUBE Mutiara Berkah Abadi*. 6(1), 59–69. <https://doi.org/10.20885/jattec.vol6.iss1.art7>
- Batool, R. (2025). Regulatory Challenges in Shari'ah Governance in Indonesia. *SSRN Electronic Journal*, 1–11. <https://doi.org/10.2139/ssrn.5258074>
- Boudawara, Y., Toumi, K., Wannas, A., & Hussainey, K. (2023). Shari'ah governance quality and environmental, social and governance performance in Islamic banks. A cross-country evidence. *Journal of Applied Accounting Research*, 24(5), 1004–1026. <https://doi.org/10.1108/JAAR-08-2022-0208>
- Brackett, A., & Batten, J. (2022). Ensuring rigor in systematic reviews: Part 7, critical appraisal of systematic review quality. *Heart & Lung: The Journal of Cardiopulmonary and Acute Care*, 53, 32–35. <https://doi.org/10.1016/j.hrtlng.2022.01.008>

- Chapra, M. U., & Khan, T. (2000). *Regulation and Supervision of Islamic Banks*. Islamic Development Bank, Islamic Research and Training Institute.
- Dasopang, N. S. (2025). Sharia Banking Supervision in Indonesia: Legal Mechanisms and Implication. *Mizani*, 12(01), 227–240. <https://doi.org/10.21098/jimf.v6i2.1093.8>
- Defilania, O. (2025). Legal Pluralism and Maqāṣid al-Sharīḥ in Regulating Cooperative Finance under Indonesia's Financial Services Authority. *Az Zarqa Jurnal Hukum Bisnis Islam*, 17(1), 1–21. <https://doi.org/10.14421/az-zarqa.v17.i1.4344>
- Elrahman, A., & Saaid, E. (2025). The Regulatory and Supervisory Framework of Microfinance: Some Evidence from Sudan. *Asian Social Science*, 11(15), 76–83. <https://doi.org/10.5539/ass.v11n15p76>
- Fatmawati, D., Ariffin, N. M., Abidin, N. H. Z., & Osman, A. Z. (2022). Shariah governance in Islamic banks: Practices, practitioners and praxis. *Global Finance Journal*, 51, 100555. <https://doi.org/10.1016/j.gfj.2020.100555>
- Fendi, U. A. (2020). Toward Islamic deposit insurance model. *Journal of Islamic Accounting and Business Research*, 11(1), 130–151. <https://doi.org/10.1108/JIABR-06-2017-0077>
- Fianto, B. A., Maulida, H., & Laila, N. (2019). Determining factors of non-performing financing in Islamic micro finance institutions. *Heliyon*, 5(8). <https://doi.org/10.1016/j.heliyon.2019.e02301>
- Hall, D. M., & Steiner, R. (2020). Policy content analysis: Qualitative method for analyzing sub-national insect pollinator legislation. *MethodsX*, 7, 100787. <https://doi.org/https://doi.org/10.1016/j.mex.2020.100787>
- Hartono, Y., Sundari, E., & Retnowati, A. (2022). The Urgency of Philosophical, Sociological and Juridical Applicability in Legislation. *International Journal of Social Science And Human Research*, 05(10), 4739–4745. <https://doi.org/10.47191/ijsshr/v5-i10-45>
- Hasan, Berlianty, T., Tjoanda, M., Titahelu, J. A. S., & Sahid, M. M. (2025). Reassessing Islamic Banking Supervision in Indonesia: A Contemporary Islamic and Socio-Legal Perspective on OJK's Integrated Model. *MILRev: Metro Islamic Law Review*, 4(1), 619–644. <https://doi.org/10.32332/milrev.v4i1.10851>
- Issyam, M., Hasan, R. B., & Alhabshi, S. M. (2016). Shariah governance framework for Islamic cooperatives as an integral social institution in Malaysia. *Intellectual Discourse*, 24, 477–500. <https://doi.org/10.31436/id.v24i0.930>
- Kurniasari, F., Gunardi, A., Putri, F. P., & Firmansyah, A. (2021). The role of financial technology to increase financial inclusion in Indonesia. *International Journal of Data and Network Science*, 5(3), 391–400. <https://doi.org/10.5267/j.ijdns.2021.5.004>
- Kususyanah, A., Wahid, S. H., & Saputra, W. (2021). Operational permits and brandings of savings and loan cooperatives and sharia financing (KSPPS) in legal validity perspective. *Ijtihad;Jurnal Wacana Hukum Islam Dan Kemanusiaan*, 21(1), 59–78. <https://doi.org/10.18326/ijtihad.v21i1.59-78>
- Mihajat, M. I. (2019). Chapter 19 Shari'ah Governance Framework in Islamic Banking and Financial Institutions in Indonesia: A Proposed Structure. In *Increasing Management Relevance and Competitiveness* (pp. 239–248). Taylor & Francis. <https://doi.org/10.1108/978-1-78973-007-420191021>
- Purnama, N. A., Sulistiani, L., & Muttaqin, Z. (2025). From Fatwa to Compliance in Islamic Financial Enforcement: Designing Governance and Supervision Frameworks for Sharia Fintech in Indonesia. *Mu'amalah Jurnal Hukum Ekonomi Syariah*, 2(2), 192–215. <https://doi.org/10.32332/muamalah.jg4ese80>
- Puspitasari, N., Mufidah, A., & Muhsyi, A. (2023). Model Of Institutional Strengthening Based On Management Function And Sharia Compliance: Exploration Of Islamic Cooperative Institutions In Jember Regency, Indonesia. *RGSA*, 17(7), 1–16. <https://doi.org/10.24857/rgsa.v17n7-026>
- Rachman, A., Saumantri, T., & Taufik Hidayatulloh. (2025). Transformation of Religious Authority in the Digital Era: A Post-Normal Times Analysis by Ziauddin Sardar on the Phenomenon of Social Media Da'wah. *Jurnal Ilmu Dakwah*, 45(1), 107–122. <https://doi.org/10.21580/jid.v45.1.25644>
- Rohmatul, S., Sukmana, R., Novita, T., & Hudaifah, A. (2020). Breadth and depth outreach of Islamic cooperatives: do size, non-performing finance, and grant matter? *Heliyon*, 6(7), e04472. <https://doi.org/10.1016/j.heliyon.2020.e04472>

- Scharpf, Fritz W. (2000). Institutions in Comparative Policy Research. *Comparative Political Studies*, 33(6-7), 762-790. <https://doi.org/10.1177/001041400003300604>
- Suyatno, M. I. Y., Kusumawardani, A., Praptitorini, M. D., & Suyatno, P. D. L. (2025). The Impact of Islamic Economic Law on Financial Regulation : Evidence from the Indonesian Dual Financial System. *Al Dzahab*, 06(02), 125-135. <https://doi.org/10.32939/dhb.v6i2.5863>
- Syahrial, M. (2022). Peran Dewan Pengawas Syariah (DPS) terhadap Kepatuhan Pemenuhan Syariah pada Perbankan Syariah. *Jurnal An-Nahl*, 9(1), 45-52. <https://doi.org/10.54576/annahl.v9i1.47>
- Triasari, D., & de Zwart, F. (2021). The Legal Reform Policy on the Shariah Supervisory Board Role's in Indonesian Shariah Banks. *Bestuur*, 9(2), 113-125. <https://doi.org/10.20961/bestuur.v9i2.55173>
- Yaş, M. (2023). Legal and Regulatory Issues of Islamic Finance in Turkey: a Qualitative Discussion. In *Journal of Central Banking Law and Institutions* (Vol. 2, Issue 3). <https://doi.org/10.21098/jcli.v2i3.169>
- Zuhdi, A., Saputra, E., Hidayat, H., Umam, K., & Hayamansyah, D. (2025). Towards an Integrated Sharia Governance Model in Indonesia: Legal Pluralism and the Reconfiguration of State Religion Relations in Financial Supervision. *Al Istinbath Jurnal Hukum Islam*, 10(2), 873-899. <https://doi.org/10.29240/jhi.v10i2.12812>