



## THE PRAGMATIC BINDING POWER OF DSN-MUI FATWAS WITHIN MODERN FINANCIAL INSTITUTIONS

<sup>1</sup>I Gede Arya Budi Dwyartha, <sup>2</sup>Wafda Vivid Izziyana, <sup>3</sup>Popova Sonia

<sup>1,2</sup>Universitas Semarang, Indonesia, <sup>3</sup>Kharkiv National University of Internal Affairs, Ukraine

E-mail Corespondent: [igedearyabudi@usm.ac.id](mailto:igedearyabudi@usm.ac.id)

### Abstract

*The ambiguous transformation of National Sharia Council–Indonesian Ulema Council (DSN-MUI) fatwas into positive law creates a critical legal loophole and compliance vulnerability in the operational governance of Indonesian Islamic financial institutions. This study aims to analyze the legal binding authority of DSN-MUI fatwas and evaluate their practical enforcement within Islamic financial institution operations. This study employs a normative legal research method. The results demonstrate that while DSN-MUI fatwas hold strong moral and religious legitimacy, they lack direct state-enforceable executive power unless explicitly codified into binding banking or financial services regulations. This structural gap leads to inconsistent implementation across different institutions, where fatwa compliance varies significantly depending on internal corporate willingness and local Sharia supervisory board oversight. Furthermore, the absence of standardized statutory sanctions for fatwa non-compliance weakens institutional accountability and leaves consumers exposed to financial-sharia risks. The findings indicate that the current self-regulatory approach fails to guarantee uniform Sharia compliance, as institutions frequently prioritize commercial viability over strict fatwa adherence due to weak external regulatory pressure. Consequently, the operational binding force of these fatwas remains highly pragmatic rather than legally absolute. This study concludes that formalizing fatwas directly into state-backed financial regulations and establishing rigorous statutory enforcement mechanisms are imperative to eliminate legal uncertainty, strengthen institutional accountability, and guarantee robust consumer protection within the national Islamic financial system.*

**Keywords:** DSN-MUI Fatwas, Binding Authority, Islamic Financial Institutions, Sharia Compliance.

### I. INTRODUCTION

In an era of rapid growth in the Islamic finance industry in Indonesia, the fatwas issued by the National Sharia Council–Indonesian Ulema Council (DSN-MUI) occupy a strategic position as the main guidelines in the design of products, transaction mechanisms, and the operations of Islamic financial institutions. DSN-MUI fatwas serve as a reference for Islamic law to ensure that all financial activities, including financing, savings, investment, and product innovation based on Islamic finance technology, remain in line with Islamic principles (HASAN 2011). These fatwas form a normative foundation that supports public trust and the

legitimacy of Islamic finance practices within the national legal system. However, practices in the field still show fundamental problems related to the clarity of the binding force of DSN-MUI fatwas from a positive law perspective (Alam et al. 2019). This uncertainty includes aspects of sanctions for fatwa violations, compliance monitoring patterns, and the relationship between fatwas and laws and regulations governing Islamic financial institutions.

This situation poses challenges for financial institutions, regulators, and consumers, especially in relation to legal certainty and the protection of the rights of Islamic financial service users (Wani and Dar 2022). A number of previous studies have discussed the role of DSN-MUI fatwas in the development of the Islamic finance industry, particularly in relation to building public trust and harmonization with national regulations. However, most of these studies still focus on normative analysis and have not adequately linked the legal status of fatwas with their application in the operational practices of financial institutions. In addition, many studies tend to position compliance with fatwas as a moral and religious obligation, without examining in depth the role of internal supervision, external regulation, and risk management in the level of compliance (Apriantoro et al. 2024).

This situation reveals a significant research gap, particularly in relation to the analysis of the normative and moral binding force of DSN-MUI fatwas in relation to the operational reality of Islamic financial institutions. The need for this study is even more pressing considering that compliance with fatwas not only affects the reputation of institutions but also has a direct impact on the stability of the Islamic financial system and consumer protection (Minaryanti et al. 2026). This study was designed to provide a more comprehensive understanding of the legal position of DSN-MUI fatwas in the national legal system and their implications for the operational practices of Islamic financial institutions. The approach used combines normative juridical analysis with qualitative empirical studies, so that the relationship between compliance with fatwas, internal and external supervisory mechanisms, and the professional awareness of human resources can be analyzed in a balanced manner.

The main focus of this study is directed at analyzing the extent to which DSN-MUI fatwas are binding on the operational practices of Islamic financial institutions in Indonesia, the factors that influence the level of compliance with fatwas, and the effectiveness of supervisory mechanisms in ensuring consistent implementation of fatwas. Through a systematic approach based on legal theory and financial governance, this research is expected to make a real contribution to strengthening legal certainty, increasing the accountability of Islamic financial institutions, and protecting consumers in order to support the development of a transparent, sustainable Islamic financial industry that is in accordance with sharia principles.

## **II. PROBLEM FORMULATION**

Based on the background of this research, the issues examined in this study are formulated as follows:

1. To what extent are the fatwas of the National Sharia Council–Indonesian Ulema Council (DSN-MUI) binding in the operational practices of Islamic financial institutions in Indonesia from the perspective of positive law and sharia principles?
2. What factors influence the level of compliance of Islamic financial institutions with DSN-MUI fatwas, particularly in relation to internal and external supervisory mechanisms and their implications for legal certainty and consumer protection?

## **III. RESEARCH METHODS**

This research employs a normative juridical method combined with a qualitative approach to examine the binding authority of National Sharia Council–Indonesian Ulema Council (DSN-MUI) fatwas in the operational practices of Islamic financial institutions in Indonesia (Marzuki 2017). The normative juridical approach is used to analyze the legal status of DSN-MUI fatwas within the national legal system, particularly in relation to statutory regulations governing Islamic finance and institutional compliance. The qualitative approach is applied to obtain an in-depth understanding of how DSN-MUI fatwas are implemented in practice and how compliance is ensured through internal and external supervisory mechanisms (Hasan-Stein 2026).

Data are collected through document analysis, including legislation related to Islamic finance, DSN-MUI fatwas, academic literature, and policy documents. In addition, selected case studies from Islamic financial institutions are examined to illustrate practical compliance patterns and governance challenges. Data analysis is conducted descriptively and analytically by linking legal norms with empirical findings (Husa 2023). This method allows the study to assess the interaction between legal certainty, institutional governance, and professional awareness in ensuring compliance with DSN-MUI fatwas. Through this approach, the research provides a comprehensive evaluation of the normative, moral, and practical dimensions of fatwa implementation in Islamic financial institutions.

## **RESULTS AND DISCUSSIONS**

### **The Binding Force of DSN-MUI Fatwas in Sharia Financial Institutions**

The findings of this study show that DSN-MUI fatwas occupy a central normative position in the daily operations of Islamic financial institutions in Indonesia. These fatwas are widely recognized as the primary Sharia reference that shapes how Islamic financial products are structured, approved, and implemented (Suhendar, Mukhlas, and Hakim 2023). Their presence provides a clear religious

foundation for institutional activities and distinguishes Islamic finance from conventional financial systems. Although DSN-MUI fatwas do not belong to the formal hierarchy of statutory law, their practical authority cannot be underestimated. Islamic financial institutions consistently rely on fatwas when developing contracts, financial instruments, and transactional mechanisms. This reliance demonstrates that fatwas function as operational standards rather than merely theological opinions. The absence of formal legislative status does not diminish the practical influence of DSN-MUI fatwas. On the contrary, their authority derives from their acceptance by regulators, industry actors, and consumers. Institutions that identify themselves as Sharia-compliant are socially and professionally expected to follow DSN-MUI fatwas as a minimum requirement for legitimacy (Khreis et al. 2025).

Compliance with fatwas serves as a benchmark for Sharia authenticity. Any deviation from DSN-MUI guidance risks damaging institutional credibility and weakening public confidence. For Islamic financial institutions, trust is inseparable from Sharia compliance, and fatwas act as the primary symbol of that commitment (Faizi and Shuib 2024). From a legal standpoint, the binding nature of DSN-MUI fatwas operates indirectly. Their enforceability emerges when they are referenced or incorporated into regulatory instruments issued by financial authorities. Once adopted into such frameworks, fatwas gain a clearer legal character and become enforceable through administrative mechanisms. A similar effect occurs when fatwas are integrated into internal governance policies. Many Islamic financial institutions codify DSN-MUI fatwas into standard operating procedures, risk management guidelines, and compliance manuals. This internalization transforms religious guidance into binding institutional norms. This process places DSN-MUI fatwas at the intersection of religious obligation and legal compliance.

Their authority is shaped by both moral expectations rooted in Islamic principles and formal obligations embedded in governance structures. This dual foundation explains their strong influence across the industry. The moral dimension of fatwa compliance remains highly significant. Managers, Sharia supervisory board members, and staff often perceive adherence to fatwas as a religious duty rather than a purely regulatory obligation. Such perception strengthens voluntary compliance beyond the reach of formal sanctions. At the same time, institutional discipline reinforces this moral commitment (Zawawi et al. 2025). Internal audits, Sharia reviews, and supervisory board oversight ensure that fatwas are not treated as symbolic references but as concrete operational requirements. Institutions with robust governance structures display higher levels of consistency in implementation. The study reveals that Islamic financial institutions rarely treat DSN-MUI fatwas as optional ethical guidelines. Instead, fatwas function as mandatory standards that define acceptable financial behavior.

This practice reflects the central role of fatwas in preserving the identity and credibility of Islamic finance. However, the lack of explicit legal sanctions for non-

compliance presents structural challenges. In regulatory areas where enforcement mechanisms remain weak, implementation may vary across institutions. Such variation often correlates with differences in governance quality and supervisory capacity (Mohd Haridan, Sheikh Hassan, and Mohammed Shah 2026). Institutions with limited internal controls face greater risks of selective or partial compliance. In these cases, fatwas may be formally acknowledged but inadequately applied in product execution. This gap highlights the importance of effective internal supervision in translating norms into practice (SAHALAN, SAMSUDIN, and YAHAYA 2022). Regulatory alignment plays a crucial role in addressing this issue. When fatwas are clearly referenced in binding regulations, compliance becomes more uniform and predictable.

Regulatory clarity reduces interpretive ambiguity and strengthens institutional accountability. The findings also demonstrate that supervisory authorities indirectly reinforce fatwa compliance through licensing, audits, and evaluation processes. Institutions that fail to align their products with recognized fatwas risk reputational consequences and regulatory scrutiny. Consumer perception further amplifies the binding force of fatwas. Clients of Islamic financial institutions increasingly demand transparency and Sharia assurance. Fatwa compliance serves as a key indicator of institutional reliability and ethical integrity. From a governance perspective, fatwas contribute to risk mitigation. Products developed in accordance with DSN-MUI guidance face lower Sharia compliance risk, which in turn reduces legal disputes and reputational exposure.

This function strengthens institutional sustainability. The study underscores the importance of professional awareness among financial practitioners. Staff members who understand the legal and Sharia rationale behind fatwas are more likely to implement them consistently. Training and education play a decisive role in this process. Differences in compliance levels often reflect disparities in institutional culture. Organizations that prioritize Sharia values as part of their corporate identity demonstrate stronger adherence to fatwa guidance (Kayani 2023). Cultural commitment complements formal governance mechanisms. The interaction between moral obligation and institutional enforcement defines the unique authority of DSN-MUI fatwas (Nasution and Harahap 2025). Their influence does not depend solely on coercive sanctions but on collective recognition across the Islamic finance ecosystem. Despite existing challenges, the overall findings confirm that DSN-MUI fatwas function as a cornerstone of Islamic financial operations in Indonesia.

Their authority shapes behavior, guides governance, and sustains public trust. Strengthening regulatory integration and supervisory coordination would further enhance consistency in implementation. Clearer legal consequences for non-compliance would also reduce disparities among institutions and reinforce consumer protection. In sum, DSN-MUI fatwas represent a hybrid form of normative authority that combines religious legitimacy, institutional acceptance,

and regulatory recognition (FADZIL and MAT n.d.). This combination explains their enduring influence and central role in the governance of Islamic financial institutions.

### **Determinants of DSN-MUI Fatwa Compliance in Islamic Financial Institutions**

Compliance with DSN-MUI fatwas is shaped by a complex interaction of internal institutional dynamics and external regulatory forces. The findings confirm that adherence cannot be explained by a single variable but rather emerges from the overall governance ecosystem surrounding Islamic financial institutions. Internal governance appears as the most immediate determinant of fatwa compliance (Ahmad 2025). Institutions with clear organizational structures and defined Sharia oversight mechanisms display stronger consistency in applying DSN-MUI guidance across products and services. The Sharia Supervisory Board holds a particularly influential role. Its effectiveness depends on independence, expertise, and active involvement in product approval and monitoring processes. Where the board functions merely as a formal requirement, compliance tends to weaken.

Professionalism within senior management also affects compliance outcomes. Managers who integrate Sharia principles into strategic decision-making demonstrate a stronger commitment to fatwa implementation than those who treat compliance as a procedural obligation. Sharia literacy among staff members further reinforces institutional compliance. Employees who understand the rationale behind fatwas are more capable of identifying potential violations during product development and execution. Knowledge gaps, by contrast, increase the likelihood of operational deviations. Training programs focused on Sharia finance contribute significantly to institutional discipline (Akhlq and Asif 2024).

Continuous education aligns daily practices with normative standards and reduces reliance on post-transaction corrections. Internal control systems serve as an additional layer of compliance assurance. Regular internal audits, risk assessments, and compliance reviews help translate fatwa provisions into measurable operational benchmarks. Institutions with integrated compliance units demonstrate greater resilience against Sharia non-compliance risk. These units act as intermediaries between Sharia supervision and operational departments, ensuring that guidance is consistently applied. External regulatory oversight complements internal governance structures. Financial authorities play a critical role in reinforcing fatwa compliance through licensing requirements, supervisory inspections, and reporting obligations (Syarif 2024). The incorporation of DSN-MUI fatwas into binding regulatory instruments strengthens their enforceability.

Once embedded in formal regulations, fatwas gain clearer legal consequences, reducing interpretive uncertainty for institutions. Regulatory clarity improves predictability and fairness across the industry. Institutions operate more

confidently when compliance expectations are clearly articulated and uniformly enforced. Periodic audits conducted by regulators function as corrective mechanisms (Alajmi and Al-Shammari 2024). These audits encourage institutions to maintain compliance standards over time rather than relying on one-time approvals. Supervisory evaluations also influence institutional behavior through reputational incentives. Institutions with strong compliance records benefit from enhanced credibility in the eyes of regulators and consumers. Consumer protection emerges as a central implication of fatwa compliance.

Sharia-compliant products provide not only religious assurance but also legal and financial security for customers. Effective supervision reduces the risk of misleading product claims. Consumers gain greater confidence when institutional practices align with publicly recognized fatwa standards. Weak oversight, however, exposes consumers to uncertainty. Products that diverge from fatwa guidance may lead to disputes, financial losses, or loss of trust in Islamic finance institutions. Sharia non-compliance risk also carries systemic implications. Repeated failures in compliance undermine the integrity of the Islamic financial system as a whole. Coordination between regulators and Sharia authorities remains essential. Effective communication ensures that regulatory measures reflect Sharia principles while remaining compatible with national legal frameworks. The findings highlight the importance of harmonized supervision.

Fragmented oversight reduces enforcement effectiveness and creates loopholes that weaken compliance. Strengthening supervisory mechanisms requires both institutional capacity building and regulatory refinement. Clearer standards, stronger audits, and improved professional training reinforce compliance culture. Overall, sustainable development of Islamic finance in Indonesia depends on balanced interaction between internal governance, external regulation, and professional awareness. Fatwa compliance thrives where institutional responsibility and regulatory support operate in tandem

#### **IV. CONCLUSION**

This study concludes that DSN-MUI fatwas play a decisive role in shaping the operational conduct of Islamic financial institutions in Indonesia, despite their non-statutory status within the formal legal hierarchy. Their binding force emerges through a combination of moral authority, institutional acceptance, and regulatory recognition. Compliance with fatwas is strongly influenced by internal governance quality, including the effectiveness of Sharia supervisory boards, managerial professionalism, and Sharia literacy among staff. External factors, particularly regulatory oversight and the incorporation of fatwas into binding regulations, further strengthen compliance and legal certainty. Effective supervision enhances consumer protection and reduces Sharia non-compliance risk, while weak governance undermines institutional credibility and public trust. Strengthening coordination between regulators and Sharia authorities, along with improving

internal compliance mechanisms, is essential for ensuring consistent fatwa implementation and supporting the sustainable development of Islamic finance in Indonesia.

## V. REFERENCE

- Ahmad, Samhudi Ramli. 2025. "Regulating Morality and Markets: A Critical Study of Fatwa Issuance Mechanisms in Islamic Economic Practice." *SUKUK: INTERNATIONAL JOURNAL OF BANKING, FINANCE, MANAGEMENT AND BUSINESS* 4(II): 18–31.
- Akhlaq, Muhammad, and Muhammad Asif. 2024. "The Importance of Sharia Compliance in Islamic Finance." *Tanazur* 5(1): 195–212.
- Alajmi, Abdullah E, and Bader A Al-Shammari. 2024. "Corporate Governance Impact on Risk Disclosure in Shariah-Compliant Financial Firms of Kuwait." *Journal of Islamic Accounting and Business Research*.
- Alam, Md Kausar, Suhaimi Ab Rahman, Hasri Mustafa, Sabarina Mohammed Shah, and Md Shamim Hossain. 2019. "Shariah Governance Framework of Islamic Banks in Bangladesh: Practices, Problems and Recommendations." *Asian Economic and Financial Review* 9(1): 118.
- Apriantoro, Muhamad Subhi, Shafy Garneta Maheswari, Muthoifin Muthoifin, and Rozi Irfan Rosyadhi. 2024. "The Potential of Islamic Mutual Funds: Research Stream and Future Direction." *Iranian Economic Review* 28(4): 1248–76.
- FADZIL, MOHD KHAIRUL RIDHUAN MOHD, and HAMIDAH MAT. "ETHICAL ACCOUNTABILITY AND PUBLIC TRUST IN RELIGIOUS FINANCIAL GOVERNANCE: A NARRATIVE REVIEW OF STRUCTURAL, BEHAVIORAL, AND FORENSIC DIMENSIONS."
- Faizi, Faizi, and Mohd Sollehudin Bin Shuib. 2024. "Sharia Governance in Islamic Financial Institutions: A Comparative Review of Malaysia and Indonesia." *EL DINAR: Jurnal Keuangan Dan Perbankan Syariah* 12(1): 89–107.
- Hasan-Stein, Linda. 2026. "Decolonising Legal Research: Developing Legal Theory to Articulate Māori and Non-Māori Legal Research Paradigms Equitably."
- HASAN, ZULKIFLI. 2011. "Sharī'ah Governance in Islamic Financial Institutions in Malaysia, GCC Countries and the UK."
- Husa, Jaakko. 2023. "The Traditional Methods of Comparative Law." *The Cambridge Handbook of Comparative Law*, eds Siems & Jen Yap, *Forthcoming*.
- Kayani, Umar Nawaz. 2023. "Islamic Finance an Alternative Mode for Short Term Financing–Working Capital Management." *International Journal of Islamic and Middle Eastern Finance and Management* 16(2): 310–22.
- Khreis, Ibrahim, Mohannad Suleiman, Mohammad Ali Al-Omari, and Sohail Al-ahmed. 2025. "The Role of Non-Sharia Studies in Enhancing Performance Efficiency Among Members of Sharia Supervisory Boards and Islamic

- Auditors in Islamic Banks: A Case Study of Islamic Banks.” In *Intelligence-Driven Circular Economy: Regeneration Towards Sustainability and Social Responsibility—Volume 2*, Springer, 547–62.
- Marzuki, Mahmud. 2017. *Penelitian Hukum: Edisi Revisi*. Prenada Media.
- Minaryanti, Annisa Adha, Tettet Fitrijanti, Citra Sukmadilaga, and Muhammad Iman Sastra Mihajat. 2026. “The Role of Sharia Governance in Minimizing Credit Risk in Islamic Banking: A Systematic Literature Review.” *Journal of Islamic Accounting and Business Research* 17(2): 311–27.
- Mohd Haridan, Nurfarahin, Ahmad Fahmi Sheikh Hassan, and Sabarina Mohammed Shah. 2026. “External Shariah Auditing in Islamic Banks: What Do Internal Auditors Think?” *Journal of Islamic Accounting and Business Research* 17(3): 557–75.
- Nasution, Liantha Adam, and Mhd Yadi Harahap. 2025. “An Islamic Criminal Law Study of Financial Crimes in Modern Sharia Businesses.” *Syarah: Jurnal Hukum Islam dan Ekonomi* 14(1): 20–40.
- SAHALAN, OTHMAN B I N, MUHAMMAD ADIB B I N SAMSUDIN, and MOHAMMAD ZAINI B I N YAHAYA. 2022. “MOHD DAUD BAKAR: TOKOH KEUSAHAWANAN SYARIAH.” *Jurnal Hadhari* 14(2): 35–52.
- Suhendar, Heris, Oyo Sunaryo Mukhlas, and Atang Abd Hakim. 2023. “Legal Politics of the Existence of Fatwa in Islamic Financial Institutions: Evidence from Indonesia.” *Jurnal Hukum Islam* 21(2): 279–308.
- Syarif, Muhammad Fazlurrahman. 2024. “Shariah Compliance Management in P2P Financing: An Exploratory Study on Islamic FinTech.” *Sukuk: International Journal of Banking, Finance, Management and Business* 3(III): 54–67.
- Wani, Athar Shahbaz, and Showkat Hussain Dar. 2022. “Prospects of Sharia Governance in Islamic Finance Industry: Jurisdictions, Standards, and Implications.” *Talaa: Journal of Islamic Finance* 2(1): 21–32.
- Zawawi, Mohamad Ridhuan Mohd, Zaini Nasohah, Anwar Fakhri Omar, and Safiyyah Hannah Souit. 2025. “Rethinking Hisbah and Sharia Proceduralism: A Comparative Approach to Justice in Contemporary Islamic Law.” *MILRev: Metro Islamic Law Review* 4(1): 234–68.