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# GOOD CORPORATE GOVERNANCE ASSESSMENTS IN INDONESIAN ISLAMIC BANKS



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With a population of more than 270 million and a rapidly expanding middle class, Islamic banking continues to grow in Indonesia. Alongside this growth, it comes with responsibility to ensure that banks operate under a robust corporate governance structure that reflects international standards and Islamic ethical values. Islamic finance lies in the balance between profitability, accountability, and adherence to meet the principles of justice and fairness.

In order to fulfil Sharia obligations, Indonesia's financial authorities, Otoritas Jasa Keuangan (OJK) and Bank Indonesia (BI), have developed a comprehensive governance framework. Their collaboration ensures that Islamic financial institutions maintain high levels of transparency, fairness, and integrity. Under POJK No. 17/2023 on Governance Implementation for Commercial Banks and SEOJK No. 10/SEOJK.03/2014 concerning Health Rating Assessments for Islamic Commercial Banks and Sharia Business Units, Islamic banks are required to perform Good Corporate Governance (GCG) self-assessments twice annually, in June and December. This monitoring process serves as a mechanism for accountability and improvement, strengthening both compliance and confidence in Indonesia's Islamic banking sector. The inclusion of Sharia principles symbolizes Indonesia's unique contribution to the global Islamic finance industry, combining regulatory rigor with moral and religious integrity (Azmi et al., 2020).

The foundation of governance within Islamic banks rests upon six essential pillars that ensure both ethical conduct and operational efficiency (Wahyuni, 2025). These pillars are deeply rooted in Islamic teachings and modern corporate governance best practices.

**Table 1. The Six Pillars of Good Corporate Governance in Islamic Banks**

NO	PILLAR	DESCRIPTION
1	<b>Transparency</b>	Banks must disclose accurate, comprehensive, and timely information to stakeholders, including regulators, shareholders, and the public. This openness builds trust, which is fundamental in Islamic finance.
2	<b>Accountability</b>	The Board of Directors, Commissioners, and Sharia Supervisory Board (SSB) are fully responsible for their decisions and must be ready to justify them to stakeholders and before Allah.
3	<b>Responsibility</b>	Beyond compliance with the law, Islamic banks are morally bound to conduct business that benefits society, prevents harm ( <i>mafsadah</i> ), and promotes economic justice.
4	<b>Independence</b>	Decision-making must be free from external or internal pressures. Governance functions, oversight, management, and supervision should be clearly separated to avoid conflicts of interest.
5	<b>Fairness</b>	Reflecting the value of <i>'adl</i> (justice), all stakeholders must be treated equitably, and their rights protected within an ethical financial system.
6	<b>Sharia Compliance</b>	The unique element of Islamic governance ensures every product, transaction, and policy follows <i>fiqh mu'amalah</i> (Islamic commercial jurisprudence) under the supervision of the Sharia Supervisory Board.

These six pillars ensure that Islamic banking institutions in Indonesia uphold governance as both a professional standard and a spiritual responsibility. As noted in the OJK Sharia Report (2023), “Sharia compliance is not merely a regulatory requirement; it is the soul of Islamic banking governance.”

To measure how well these principles are implemented, Bank Indonesia established an official five-tier rating system. This matrix provides a clear benchmark for assessing the quality of GCG across institutions.

**Table 2. Bank Indonesia’s Five-Tier Good Corporate Governance Rating System**

<b>Rating</b>	<b>Category</b>	<b>Definition (Official Description)</b>
<b>1</b>	<b>Very Good</b>	Reflects that management has implemented GCG very well in overall. The fulfilment of governance principles is highly adequate, and any weaknesses are insignificant, easily corrected by management.
<b>2</b>	<b>Good</b>	Indicates that management has implemented GCG well in general, with adequate compliance and only minor weaknesses resolved through normal actions.
<b>3</b>	<b>Fairly Good</b>	Shows GCG is moderately effective, with sufficient compliance, but significant weaknesses requiring attention and improvement.
<b>4</b>	<b>Less Good</b>	Reflects that implementation is less effective, inadequately fulfilling governance principles, and significant weaknesses demanding comprehensive corrective measures.
<b>5</b>	<b>Not Good</b>	Demonstrates poor governance performance, where principles are highly inadequately fulfilled, and weaknesses are severe and difficult to correct.

This rating system allows both OJK and Islamic banks to evaluate governance quality objectively. It also drives continuous improvement and healthy competition among institutions to achieve “Rating 1 namely Very Good,” symbolizing excellence in ethical and operational governance.

In conclusion, the assessment of governance quality by OJK will create a holistic and balanced approach. Therefore, Indonesia's position as a leader in Islamic finance would sustain governance grounded in faith and integrity.

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